## 1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands. Its ultimate holding company is Twinning Wealth Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and associate are set out in notes 17 and 18, respectively.

Pursuant to a corporate reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 11 April 2002. Details of the Group Reorganisation are set out in the prospectus of the Company dated 16 April 2002.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) the shares of United Win International Corporation ("United Win") were issued and allotted to the then shareholders of Wang Sing Products Limited ("WSP"), Chief Wealth International Corp. ("Chief Wealth") and Gerrards Agents Limited ("GAL"), in exchange for the shares in WSP, Chief Wealth and GAL; and

(b) the shares of the Company were issued and allotted to the then existing shareholders of United Win in exchange for the shares in United Win.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The shares of the Company have been listed on the Main Board of the Stock Exchange with effect from 26 April 2002.

## 2. BASIS OF PREPARATION

In September 2001, Jiangsu Golden Harbour Enterprise Limited ("Golden Harbour"), an indirectly wholly owned subsidiary of the Company, entered into two subcontracting agreements ("Subcontracting Agreements") with each of Hai An Xian Electronic Meter Factory ("Hai An") and Hai An Xian Tian Yuan Power Tools Manufacture Company Limited ("Tian Yuan") for the production by Hai An and Tian Yuan (together the "Subcontractors") of certain of the Group's power tools for a period of two years commencing from 1 October 2001 to 30 September 2003.

## 2. BASIS OF PREPARATION (continued)

Based on the information available to the Board, Mr. Weng Shao Bo ("Mr. Weng"), a former executive director of the Company who resigned from the Board on 8 October 2002, had approximately 94.9% and 82% equity interests in Hai An and Tian Yuan, respectively.

On 9 April 2003, the Directors of the Company (the "Directors") announced that the Subcontracting Agreements were formally terminated by Golden Harbour on 4 April 2003 as a result of the breaches of the Subcontracting Agreements by the Subcontractors. The Subcontractors have been withholding various inventories of Golden Harbour and subsequently, the Directors have been carrying out investigation into whether any accounts receivable due to Golden Harbour had been collected by the Subcontractors.

In order to assist the Group in resolving the above issues, the Board has referred the matter to the relevant governmental authorities, including the People's Government of each of Hai An County and Nan Tong City with a view to resolving the matters satisfactorily through the assistance of the governmental authorities in the People's Republic of China (the "PRC"). Golden Harbour and the Subcontractors have entered into an agreement on 22 September 2003 ("Settlement Agreement") relating to the issues as mentioned above.

The Directors consider that the financial effect of the Settlement Agreement amounted to HK$4,580,000, representing the expenses payable to the Subcontractors of HK$1,965,000, the additional subcontracting fee payable to the Subcontractors of HK$1,502,000 and loss incurred due to irrecoverable inventories withheld by the Subcontractors of HK$1,113,000, are fundamental errors of the financial statements for the year ended 31 December 2002 and adjusted the opening balances accordingly. Comparative figures have been restated, the amounts due to companies owned by a former director as at 31 December 2002 and cost of sales for the year ended 31 December 2002 have been increased by HK$3,467,000 and HK$4,580,000, respectively, and the inventories as at 31 December 2002 have been decreased by HK$1,113,000.

## 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current period, the Company has adopted, for the first time, the Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" (SSAP 12 (Revised)) issued by the HKSA, the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA:

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

## 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The revaluation reserve as at 1 January 2003 has been decreased by HK$7,730,000 and the deferred taxation as at 1 January 2003 has been increased by HK$7,730,000, which is cumulative effect to the change in the policy on the financial position for the periods prior to 2003.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost as modified for the revaluation of certain property and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year as explained in note 1.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Land use rights are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land use rights is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line basis, on the following rates per annum:

| | |
|---|---|
| Land use rights and buildings | Over the unexpired lease terms |
| Moulds | 20% |
| Plant and machinery | 10% |
| Leasehold improvements, furniture and fixtures | 20 - $33^1/_3$% |
| Computer equipment | 20% |
| Motor vehicles | 20 - $33^1/_3$% |

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment** (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Know-how, patents and trademarks**

Know-how, patents and trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Operating leases

Leases where substantially all the risks and rewards of ownership remains with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation** (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense as they fall due.

## 5. TURNOVER

Turnover represents the amounts received and receivable for sales of power tools and air tools to outside customers, less return and allowances during the year.

## 6. SEGMENT INFORMATION

The Group is engaged in the manufacture and distribution of power tools and air tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Directors consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

Segment information by location of customers is as follows:

| | 2003 *HK$'000* | 2002 *HK$'000* (restated) |
|---|---|---|
| Turnover | | |
| Europe | | |
| Germany | 112,131 | 176,279 |
| Other European countries | 71,022 | 70,466 |
| Total | 183,153 | 246,745 |
| Asia | 35,290 | 94,555 |
| Australia | 15,422 | – |
| North America and other continents | 8,873 | 2,342 |
| Total | 242,738 | 343,642 |
| Segment results | | |
| Europe | | |
| Germany | 12,347 | 31,374 |
| Other European countries | 16,922 | 13,188 |
| Total | 29,269 | 44,562 |
| Asia | 3,788 | 5,846 |
| Australia | 748 | – |
| North America and other continents | 822 | 1,560 |
| Total | 34,627 | 51,968 |
| Unallocated corporate income and expenses | (24,260) | (25,744) |
| Profit from operations | 10,367 | 26,224 |
| Finance costs | (549) | (596) |
| Share of result of an associate | 5,320 | – |
| Profit before taxation | 15,138 | 25,628 |
| Taxation | (3,308) | (216) |
| Profit before minority interest | 11,830 | 25,412 |
| Minority interest | 265 | 261 |
| Net profit for the year | 12,095 | 25,673 |

## 6. SEGMENT INFORMATION (continued)

| | 2003 HK$'000 | 2002 HK$'000 (restated) |
|---|---|---|
| Segment assets *(Note)* | | |
| Europe | | |
| Germany | 2,502 | 27,008 |
| Other European countries | 12,640 | 11,431 |
| Total | 15,142 | 38,439 |
| Asia | 18,288 | 29,444 |
| Australia | 6,556 | – |
| North America and other continents | 473 | 274 |
| Unallocated assets | 303,956 | 205,276 |
| | 344,415 | 273,433 |
| Segment liabilities | | |
| Europe | | |
| Germany | 8,078 | 16,927 |
| Other European countries | 7,037 | 9,439 |
| Total | 15,115 | 26,366 |
| Asia | 304 | 4,397 |
| Australia | 745 | – |
| North America and other continents | – | 398 |
| Unallocated liabilities | 162,145 | 94,113 |
| | 178,309 | 125,274 |

*Note:*

The Group's production facilities are located in the People's Republic of China excluding Hong Kong (the "PRC"). The customers utilise the Group's resources in a similar manner. Accordingly, the only separate assets are trade receivables.

## 6. SEGMENT INFORMATION (continued)

### Business segments

The Group's operations can be divided into manufacturing and outsourcing of goods. The following table provides an analysis of the Group's turnover by business segments of the Group:

| | Turnover by business segments | |
|---|---|---|
| | 2003 | 2002 |
| | *HK$'000* | *HK$'000* |
| Manufacturing | 115,632 | 189,887 |
| Outsourcing | 127,106 | 153,755 |
| | 242,738 | 343,642 |

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment by business segments:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | *HK$'000* | *HK$'000* (restated) | *HK$'000* | *HK$'000* |
| Outsourcing | 6,762 | 33,889 | – | – |
| Manufacturing | 211,983 | 188,362 | 33,241 | 69,157 |
| Unallocated | 125,670 | 51,182 | 492 | 685 |
| | 344,415 | 273,433 | 33,733 | 69,842 |

## 7. OTHER OPERATING INCOME

| | 2003 | 2002 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income from banks | 119 | 340 |
| Exchange gain | 5,629 | 203 |
| Sundry income | 1,359 | 1,537 |
| | 7,107 | 2,080 |

## 8. PROFIT FROM OPERATIONS

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Profit from operations has been arrived at after charging: | | |
| Directors' remuneration *(note 9)* | 1,460 | 1,074 |
| Other staff costs | 8,983 | 11,717 |
| Contributions to retirement schemes for other staff | 897 | 995 |
| Total staff costs | 11,340 | 13,786 |
| Auditors' remuneration | 938 | 777 |
| Depreciation and amortisation | 4,787 | 3,024 |
| Loss on disposal of property, plant and equipment | 697 | – |
| Inventories written off | – | 1,113 |

## 9. DIRECTORS' REMUNERATION

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Directors' fees | – | – |
| Other emoluments: | | |
| Salaries and other benefits | 1,430 | 1,050 |
| Contributions to retirement pension schemes | 30 | 24 |
| Total emoluments | 1,460 | 1,074 |

No Directors' fees or other emoluments were payable to Independent Non-executive Directors for both years.

The emoluments of the Directors were within the following bands:

| | 2003 No. of Directors | 2002 No. of Directors |
|---|---|---|
| Nil to HK$1,000,000 | 4 | 6 |
| HK$1,000,001 to HK$1,500,000 | 1 | – |

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2002: four) were Directors whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two (2002: one) individuals were as follows:

| | 2003<br>*HK$'000* | 2002<br>*HK$'000* |
|---|---|---|
| Salaries and other benefits | 897 | 550 |
| Contributions to retirement pension schemes | 24 | 12 |
| Total emoluments | 921 | 562 |

## 11. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.

## 12. TAXATION

| | 2003<br>*HK$'000* | 2002<br>*HK$'000* |
|---|---|---|
| PRC income tax | 259 | 216 |
| Share of taxation attribution to an associate | 2,243 | – |
| | 2,502 | 216 |
| Deferred tax *(Note 31)* | 806 | – |
| | 3,308 | 216 |

The Company's subsidiary, Golden Harbour, operating in the PRC is eligible for exemption from the PRC income tax for the year ended 31 December 2002 and 2003, followed by a 50% reduction in the PRC income tax for the next three years. The PRC income tax is calculated at the applicable rates on the assessable profits for the year.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Deferred tax charged to income statement represents the withholding tax on the undistributed earnings of the associate shared by the Group. Deferred tax relating to the revaluation of the Group's properties has been charged directly to equity.

## 12. TAXATION (continued)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Profit before taxation | 15,138 | 25,628 |
| Tax at the domestic income tax rate of 33% (2002: 33%) | 4,996 | 8,457 |
| Tax effect of expenses not deductible for tax purpose | 3,105 | 2,913 |
| Tax effect of income not taxable for tax purpose | (11,994) | (12,170) |
| Tax effect of tax losses not recognised | 5,908 | 1,111 |
| Effect of tax exemptions granted to PRC subsidiaries | – | (95) |
| Effect of different tax rates of an associate operating in other jurisdiction | 487 | – |
| Tax expense for the year | 2,502 | 216 |

## 13. DIVIDENDS

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Interim dividend paid of HK1 cent (2002: HK2 cents) per share | 3,360 | 6,720 |
| Final dividend proposed of HK0.5 cent (2002: HK1 cent) per share | 2,013 | 3,360 |
| | 5,373 | 10,080 |

The final dividend of HK0.5 cent (2002: HK1 cent) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK$12,095,000 (2002: HK$25,673,000) and on the weighted average number of shares of 336,489,042 (2002: 309,764,384) shares in issue.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land use rights | Buildings | Construction in progress | Moulds | Plant and machinery | Leasehold improvements, furniture and fixtures | Computer equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| THE GROUP | | | | | | | | | |
| COST OR VALUATION | | | | | | | | | |
| At 1 January 2003 | 25,183 | 36,691 | 43,106 | 2,585 | 7,285 | 5,006 | 1,200 | 3,239 | 124,295 |
| Additions | – | – | 15,775 | 533 | 15,807 | 1,264 | 241 | 113 | 33,733 |
| Reclassification | – | 11,183 | (11,503) | – | – | – | 320 | – | – |
| Disposals | – | – | (595) | (1,165) | (149) | – | – | (140) | (2,049) |
| **At 31 December 2003** | **25,183** | **47,874** | **46,783** | **1,953** | **22,943** | **6,270** | **1,761** | **3,212** | **155,979** |
| Comprising: | | | | | | | | | |
| At cost | – | 47,874 | 46,783 | 1,953 | 22,943 | 6,270 | 1,761 | 3,212 | 130,796 |
| At valuation | | | | | | | | | |
| – 28 February 2002 | 25,183 | – | – | – | – | – | – | – | 25,183 |
| | 25,183 | 47,874 | 46,783 | 1,953 | 22,943 | 6,270 | 1,761 | 3,212 | 155,979 |
| DEPRECIATION AND AMORTISATION | | | | | | | | | |
| At 1 January 2003 | – | 1,361 | – | 1,388 | 645 | 3,354 | 375 | 1,406 | 8,529 |
| Provided for the year | 530 | 1,050 | – | 628 | 1,374 | 404 | 148 | 653 | 4,787 |
| Eliminated on disposals | – | – | – | (1,165) | (47) | – | – | (140) | (1,352) |
| **At 31 December 2003** | **530** | **2,411** | **–** | **851** | **1,972** | **3,758** | **523** | **1,919** | **11,964** |
| NET BOOK VALUES | | | | | | | | | |
| **At 31 December 2003** | **24,653** | **45,463** | **46,783** | **1,102** | **20,971** | **2,512** | **1,238** | **1,293** | **144,015** |
| At 31 December 2002 | 25,183 | 35,330 | 43,106 | 1,197 | 6,640 | 1,652 | 825 | 1,833 | 115,766 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The land use rights and the buildings are situated in the PRC under medium-term leases. During 2001, the PRC government granted a piece of land in Nantong, Jiangsu Province to the Group without consideration, the Group has recorded such grant at a nominal amount of HK$1.

On 28 February 2002, the land use rights were revalued on an open market value by DTZ Debenham Tie Leung Limited, an independent valuer. The Directors have considered that there is no material difference between the carrying amount and fair values of the land use rights as at 31 December 2003.

If the land use rights had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation of HK$242,000 (2002: HK$262,000).

## 16. INTANGIBLE ASSETS

| | THE GROUP | |
|---|---|---|
| | 2003 | 2002 |
| | *HK$'000* | *HK$'000* |
| Addition during for the year and balance at end of year | 9,319 | – |

On 11 November 2003, the Group has acquired patents, trademark and know-how (collectively "Intangible Assets") from a third party, amounting to HK$9,319,000. No amortisation was charged for the year, as the Intangible Assets has not yet commenced. In the opinion of the Directors, the Intangible Assets will be amortised over economic lives of 5-15 years.

## 17. INVESTMENT IN A SUBSIDIARY

| | THE COMPANY |
|---|---|
| | 2003 and 2002 |
| | *HK$'000* |
| Unlisted investment, at cost | 80,000 |

Particulars of subsidiaries are set out in note 39.

## 18. INTEREST IN AN ASSOCIATE

| | THE GROUP | |
|---|---|---|
| | 2003 | 2002 |
| | *HK$'000* | *HK$'000* |
| Share of net assets | 3,770 | – |
| Premium on acquisition of an associate arising during the year | 13,695 | – |
| *Less:* Amortisation | (685) | – |
| | 13,010 | – |
| | 16,780 | – |

At 31 December 2003, the Group had interest in the following associate:

| Name of entity | Form of business structure | Place of incorporation and operation | Class of shares held | Proportion of issued share capital held by the Group | Nature of business |
|---|---|---|---|---|---|
| SBW Technische Gerate GmbH ("SBW") | Corporation | Germany | Ordinary | 50% | Distribution of power tools |

The premium on acquisition of an associate arose on the acquisition of SBW on 1 January 2003. Amortisation charged in the current year amounting to HK$685,000 has been included in the amount reported as share of result of an associate in the consolidated income statement.

## 18. INTEREST IN AN ASSOCIATE (continued)

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest. The financial information of the associate, which is derived from financial statements made up to 31 December 2003, is as follows:

Results for the year ended 31 December 2003:

| | 1 January 2003 (date of acquisition) to 31 December 2003 *HK$'000* |
|---|---|
| Turnover | 206,507 |
| Profit before taxation | 13,562 |
| Profit before taxation attributable to the Group | 6,781 |

Financial position as at 31 December 2003:

| | *HK$'000* |
|---|---|
| Current assets | 104,904 |
| Current liabilities | (95,321) |
| Net assets | 9,583 |
| Net assets attributable to the Group | 4,792 |

## 19. DEPOSIT FOR AN INVESTMENT

In August 2002, the Group entered into an agreement to acquire 50% interest in SBW, a German power tool distributor. As at 31 December 2002, the Group contributed US$3 million to SBW as the deposit for the investment.

During the year, the acquisition was completed and the deposit for investment was reclassified to interest in an associate and loan to an associate of HK$19,306,000.

## 20. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | 2003 *HK$'000* | 2002 *HK$'000* (restated) |
| Raw materials | 10,618 | 12,037 |
| Work in progress | 6,582 | 3,809 |
| Finished goods | 3,589 | 3,055 |
| | 20,789 | 18,901 |

The inventories are stated at cost.

## 21. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing average credit period of 20-120 days to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The following is an aged analysis of trade receivables at the reporting date:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **9,714** | 33,918 |
| Between 31 to 60 days | **9,260** | 6,725 |
| Between 61 to 90 days | **7,319** | 1,062 |
| Between 91 to 120 days | **580** | 5,394 |
| Over 120 days | **13,586** | 21,058 |
| Trade receivables | **40,459** | 68,157 |
| Other receivables | **8,867** | 10,167 |
| | **49,326** | 78,324 |

## 22. AMOUNT DUE FROM A FORMER DIRECTOR AND A COMPANY OWNED BY A FORMER DIRECTOR

Particulars of an amount due from a former director and amount due from a company owned by a former director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

| | | | **Maximum amount outstanding during the year** | |
|---|---|---|---|---|
| **Name of former director** | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Weng Shao Bo | **–** | 698 | **698** | 1,934 |
| **Name of the company owned by a former director** | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Nantong Alluck Tools Co. Ltd. ("Alluck") | **8,698** | – | **16,382** | – |

Alluck is the successor of the Subcontractors in relation to the Settlement Agreement.

The amount due from a former director and amount due from a company owned by a former director are unsecured, interest free and is repayable on demand.

## 23. LOAN TO AN ASSOCIATE

In the opinion of the Directors, the loan to an associate is unsecured, interest free and is repayable on demand.

## 24. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure bank facilities granted to the Group.

## 25. BANK BALANCES AND CASH

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank balances and cash denominated in Renminbi | 16,394 | 4,190 | – | – |
| Other currencies | 18,944 | 16,530 | 24 | 281 |
| | 35,338 | 20,720 | 24 | 281 |

Renminbi is generally regarded as a currency that cannot be freely converted to other currencies.

## 26. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

| | 2003 | 2002 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 30 days | 32,423 | 35,841 |
| Between 31 to 60 days | 12,366 | 3,927 |
| Between 61 to 90 days | 4,442 | 3,153 |
| Between 91 to 120 days | 1,703 | 16,549 |
| Over 120 days | 15,210 | 21,381 |
| Trade payables | 66,144 | 80,851 |
| Other payables | 16,608 | 25,359 |
| | 82,752 | 106,210 |

## 27. UNSECURED BANK BORROWINGS

The unsecured bank borrowings carried interest at commercial rates and were payable within one year.

## 28. SHARE CAPITAL

| | Number of shares | | Value | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | | | *HK$'000* | *HK$'000* |
| Ordinary shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At beginning of the year | 2,000,000,000 | – | 200,000 | – |
| On incorporation | – | 1,000,000 | – | 100 |
| Increase in authorised share capital on 11 April 2002 | – | 1,999,000,000 | – | 199,900 |
| At end of year | 2,000,000,000 | 2,000,000,000 | 200,000 | 200,000 |
| Issued and fully paid: | | | | |
| At beginning of year | 336,000,000 | – | 33,600 | – |
| Allotted and issued as nil paid | – | 1,000,000 | – | – |
| Credited as fully paid at par pursuant to the Group Reorganisation | – | – | – | 100 |
| Issue of shares upon the Group Reorganisation | – | 1,000,000 | – | 100 |
| Capitalisation of share premium | – | 250,000,000 | – | 25,000 |
| Issue of shares through initial public offering | – | 84,000,000 | – | 8,400 |
| Issue of shares for acquisition of Intangible Assets and raw materials | 8,500,000 | – | 850 | – |
| At end of year | 344,500,000 | 336,000,000 | 34,450 | 33,600 |

The following changes in share capital of the Company took place during the period from 26 June 2001 (date of incorporation) to 31 December 2003.

The Company was incorporated on 26 June 2001 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 10 July 2001, 1,000,000 shares were allotted and issued nil paid.

**28. SHARE CAPITAL** (continued)

Pursuant to resolutions in writing of the sole shareholder of the Company passed on 11 April 2002,

(a) the authorised share capital of the Company was increased from HK$100,000 to HK$200,000 by the creation of an additional 1,000,000 shares of HK$0.10 each;

(b) 1,000,000 shares of HK$0.10 each were allotted and issued, credited as fully paid at par as part of the consideration for the acquisition by the Company of the entire issued share capital of United Win;

(c) an amount of HK$100,000, representing the 1,000,000 shares of HK$0.10 each allotted and issued on 10 July 2001 as referred above, was credited as fully paid at par as part of the consideration for the acquisition by the Company of the entire issued share capital of United Win;

(d) the authorised share capital of the Company was further increased to HK$200 million by the creation of a further 1,998 million shares;

(e) the Directors were authorised to allot and issue a total of 250 million shares of HK$0.10 each, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 11 April 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK$25,000,000 standing to the credit of the share premium account of the Company. Those shares were issued on 24 April 2002 following the placing and public offer of the Company's shares mentioned in (f) below;

(f) On 24 April 2002, 84,000,000 ordinary shares of HK$0.10 each were issued at HK$0.95 per share for cash through an initial public offering by way of placing and public offer.

(g) On 11 December 2003, 8,500,000 ordinary shares of HK$0.10 each were issued at HK$1.47 per share for acquisition of the Intangible Assets and raw materials from a third party.

All the above shares issued by the Company rank pari passu with the then existing shares in all respects.

## 29. RESERVES

| | Share premium account HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| THE COMPANY | | | |
| Share premium arising on the Group Reorganisation | 79,800 | – | 79,800 |
| Premium arising on initial public offering | 71,400 | – | 71,400 |
| Share issue expenses | (13,979) | – | (13,979) |
| Capitalisation issue | (25,000) | – | (25,000) |
| Profit for the year | – | 7,201 | 7,201 |
| Dividend paid | – | (6,720) | (6,720) |
| At 31 December 2002 | 112,221 | 481 | 112,702 |
| Share premium arising on acquisition of Intangible Assets and raw materials | 11,645 | – | 11,645 |
| Profit for the year | – | 33,218 | 33,218 |
| Dividends paid | – | (6,720) | (6,720) |
| At 31 December 2003 | 123,866 | 26,979 | 150,845 |

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that, immediately following the distribution and dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to HK$150,845,000 (2002: HK$112,702,000).

## 30. OTHER PAYABLE

The amount represents the remaining consideration due to the shareholders of SBW of EUR1,000,000, which is interest free, for the acquisition of 50% interest in SBW as agreed in the Joint Venture Agreement dated 23 August 2002. The shareholders of SBW have agreed not to demand repayment of the investment costs within one year from the balance sheet date. Accordingly, amount was classified as non-current liability.

## 31. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

| | Undistributed earnings of an associate *HK$'000* | Revaluation of properties *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **THE GROUP** | | | |
| At 1 January 2002 | | | |
| – as previously reported | – | – | – |
| – adjustment on adoption of SSAP 12 (Revised) | – | 7,730 | 7,730 |
| At 1 January 2002 and 31 December 2002 | – | 7,730 | 7,730 |
| Charge to income statement for the year | 806 | – | 806 |
| Exchange differences | – | 73 | 73 |
| **At 31 December 2003** | **806** | **7,803** | **8,609** |

At the balance sheet date, the Group has estimated unused tax losses of HK$21,732,000 (2002: HK$3,830,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in year 2008.

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

## 32. OPERATING LEASES

| | THE GROUP | |
|---|---|---|
| | **2003** *HK$'000* | 2002 *HK$'000* |
| Minimum lease payments paid under operating leases during the year: | | |
| – Office and factory premises | **288** | 341 |
| – Machinery and equipment | **92** | 92 |
| | **380** | 433 |

## 32. OPERATING LEASES (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | Office and factory premises | | Machinery and equipment | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **THE GROUP** | | | | |
| Within one year | **288** | 1,142 | **92** | 92 |
| In the second to fifth year inclusive | **503** | 430 | **230** | 322 |
| Over five years | **–** | 108 | **–** | – |
| | **791** | 1,680 | **322** | 414 |

Lease for office premise is negotiated for an average term of two years and rentals are fixed for an average of two years. Leases of factory premises, machinery and equipment will be negotiated after the lease term of eight years.

At the balance sheet date, the Company had no commitments under operating leases.

## 33. MAJOR NON-CASH TRANSACTIONS

On 21 November 2003, the Group entered into agreements to acquire the Intangible Assets amounting to HK$9,319,000 and raw materials of HK$3,176,000 from a third party, satisfied by the issue of 8,500,000 new shares of the Company. The transactions were completed on 11 December 2003 and the market value of the Company's shares was HK$1.47 per share at that date. Further details of the Intangible Assets are set out in note 16.

## 34. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Bills discounted with recourse | **13,122** | 25,312 | **–** | – |
| Guarantees given to banks for banking facilities utilised by subsidiaries | **–** | – | **13,866** | – |

## 35. CAPITAL COMMITMENTS

| | THE GROUP | |
|---|---|---|
| | 2003 | 2002 |
| | *HK$'000* | *HK$'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | 10,166 | 26,766 |
| Capital contribution to an investment contracted for but not provided in the financial statements | – | 5,252 |

At the balance sheet date, the Company had no capital commitment.

## 36. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 11 April 2002 for the primary purpose of providing incentives to eligible participants, who contribute to the success of the Group's operations, and will expire on 10 April 2012. Eligible participants include Directors, eligible employees and other eligible parties.

From the date of the adoption of the Scheme to 31 December 2002, no options were granted. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the Independent Non-executive Directors. Options granted to substantial shareholders or Independent Non-executive Directors or to any of their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted may be accepted within 21 days of the date of grant, upon payment of a nominal consideration of HK$1. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and may not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the share.

## 37. RETIREMENT BENEFITS SCHEME

The Group operates retirement schemes and a central provident fund scheme covering their employees. The Group has joined the MPF Scheme for qualifying employees of the Group in Hong Kong. Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling. The calculation of contributions for PRC eligible staff is based on 20% of the applicable payroll costs.

## 38. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with its related parties.

(a) During the year, the Group sold goods to an associate amounting to HK$88,619,000 (2002: Nil). The transactions are carried out on terms similar to those applicable to transactions with unrelated parties.

(b) A corporate guarantee was given by a related company owned by a Director of the Group, Chen Wai Yuk, amounted to HK$26,415,000 in respect of credit facilities granted to the Group.

(c) Related companies of the Company in which Weng Shao Bo, the former director of the Company and, Dai Wu Fang, a former director of Golden Harbour, have beneficial interests.

| Name of related company/party | Nature of transaction | 2003<br>*HK$'000* | 2002<br>*HK$'000*<br>(restated) |
|---|---|---|---|
| Hai An *(Note ii)* | Subcontracting fee *(Note i)* | – | 2,634 |
| Tian Yuan *(Note ii)* | Subcontracting fee *(Note i)* | – | 566 |
| Alluck | Sales of finished goods *(Note iv)* | – | 8,835 |

## 38. RELATED PARTY TRANSACTIONS (continued)

| | 2003 HK$'000 | 2002 HK$'000 (restated) |
|---|---|---|
| Amount due from a former director *(Note iii)* | – | 698 |
| Amounts due to Hai An and Tian Yuan *(Note iii)* | – | 5,350 |

*Notes:*

i. The Group has entered into subcontracting agreements for a period of 2 years from 1 October 2001 with Hai An and Tian Yuan for paying a sum of RMB80,000 per month and RMB20,000 per month, respectively, for using their production facilities from 1 October 2001 to 31 December 2001. Thereafter, the subcontracting fees payable to Hai An and Tian Yuan will be increased to RMB100,000 per month and RMB50,000 per month, respectively, for the remaining period.

ii. Weng Shao Bo, a former executive director of the Company and, Dai Wu Fang, a former director of Golden Harbour, have beneficial interests in Hai An, Tian Yuan and Alluck.

iii. The balances were unsecured, interest-free and were repayable on demand.

iv. The transactions were carried out at cost.

## 39. PARTICULARS OF SUBSIDIARIES

| Name | Form of business structure | Place of incorporation/ registration | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Chief Wealth International Corp. | Corporation | British Virgin Islands | Ordinary share US$1 | – | 100% | Investment holding |
| Gerrards Agents Limited | Corporation | British Virgin Islands | Ordinary share US$1 | – | 100% | Commission agency for overseas sales |
| 江蘇鑫港企業有限公司 Jiangsu Golden Harbour Enterprise Ltd. | Wholly foreign owned enterprise ("WFOE") | PRC | Registered capital US$6,000,000 | – | 100% | Manufacture and distribution of power tools |
| 江蘇鑫城企業有限公司 Jiangsu Newairy Technology Ltd. | WFOE | PRC | Registered capital US$2,600,000 *(Note a)* | – | 100% | Manufacture of power tools and air tools |
| Rainy Company Inc. | Corporation | British Virgin Islands | Ordinary share US$1 | – | 100% | Investment holding |
| 蘇州東欣工具有限公司 Suzhou Dong Xin Tools Co., Ltd. | Sino-foreign equity joint venture | PRC | Registered capital US$556,000 | – | 91% | Manufacture and distribution of power tools |
| United Win International Corporation | Corporation | British Virgin Islands | Ordinary shares US$100 | 100% | – | Investment holding |
| Wang Sing Products Limited | Corporation | Hong Kong | Ordinary shares HK$1,000,000 | – | 100% | Trading of power tools and air tools |

*Note:*

(a) The paid up capital was US$1,150,000 at 31 December 2003.

### 40. POST BALANCE SHEET EVENTS

On 29 January 2004, a placing and subscription agreement was entered pursuant to which (i) the sole bookrunner and lead manager agreed to place up to 58,000,000 shares of the Company held by Twinning Wealth Limited ("TWL"), the substantial shareholder of the Company, and (ii) TWL agreed to subscribe for and the Company agreed to allot and issue a maximum of 58,000,000 new shares to TWL at the subscription price of HK$1.37 per share. The placing and the subscription were completed on 11 February 2004. Details of the placing and the subscription are set out in the Company's announcement dated 29 January 2004.