

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27th February, 2002 under the Companies Law (Revised) Chapter 22 of the Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 33.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as 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 issued shares in exchange for the entire issued share capital of PME International (BVI) Company Limited, the former holding company of the Group, and thereby became the holding company of the Group on 23rd October, 2002.

The shares of the Company were listed on the Stock Exchange with effect from 13th November, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

## 2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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 amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result of this change in policy, the balance of retained profits at 1st January, 2002 has been increased by HK\$117,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The balance on the Group's property revaluation reserve at 1st January, 2002 has been decreased by HK\$4,040,000 representing the deferred tax liability recognised in respect of the revaluation increase of certain of on the Group's leasehold land and buildings at that date. The change has resulted in an increase in profit and a decrease in property revaluation reserve of HK\$330,000 and HK\$8,000 respectively for the year ended 31st December, 2003 (2002: decrease in HK\$390,000 and decrease in HK\$280,000 respectively).

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of leasehold land and buildings.

The financial statements have been prepared 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 31st December each year.

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

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

#### **Revenue recognition**

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

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

#### **Property, plant and equipment**

Property, plant and equipment other than leasehold land and buildings are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and 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 and buildings is credited to the property 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 increase is transferred to retained profits.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their residual value, using the straight line method, as follows:

Leasehold land	Over the terms of the relevant leases
Buildings	Over the shorter of the terms of leases or 50 years
Other property, plant and equipment	3 to 10 years

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

#### Assets held under finance leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

#### Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

#### Other investments

Other investments represent investment in life insurance fund which are held long-term purpose and are stated at cost less any identified impairment loss.

#### Club debentures

Club debentures are stated at cost less any identified impairment loss.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

#### 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. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average 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.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation

Taxation 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 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, 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.

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 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 the defined contribution retirement benefits schemes are charged as an expense as they fall due.

### 4. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

*Income statement for the year ended 31st December, 2003*

	<b>Manufacturing</b>	<b>Trading</b>	<b>Technical service</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>				
External sales	75,454	75,746	3,876	155,076
<b>Result</b>				
Segment result	23,584	9,120	3,176	35,880
Other operating income				624
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement				56
Profit from operations				36,560
Loss on disposal of a subsidiary				(30)
Finance costs				(1,233)
Profit before taxation				35,297
Taxation				(4,664)
Net profit for the year				30,633



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### Business segments (continued)

Balance sheet at 31st December, 2003

	<b>Manufacturing</b>	<b>Trading</b>	<b>Technical service</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>				
Segment assets	143,230	34,495	1,116	178,841
Unallocated corporate assets				25,356
				<hr/>
Consolidated total assets				204,197
				<hr/>
<b>Liabilities</b>				
Segment liabilities	4,147	2,007	103	6,257
Unallocated corporate liabilities				36,561
				<hr/>
Consolidated total liabilities				42,818
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#### Other information

	<b>Manufacturing</b>	<b>Trading</b>	<b>Technical service</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure	9,045	679	33	9,757
Depreciation and amortisation	4,696	1,140	62	5,898
Allowance for doubtful debts	511	514	26	1,051

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### Business segments (continued)

Income statement for the year ended 31st December, 2002

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i> (Restated)
<b>Turnover</b>				
External sales	57,525	62,381	1,404	121,310
<b>Result</b>				
Segment result	20,765	9,362	1,154	31,281
Other operating income				646
Revaluation decrease on leasehold land and buildings				(334)
Profit from operations				31,593
Finance costs				(2,172)
Profit before taxation				29,421
Taxation				(5,423)
Net profit for the year				23,998

Balance sheet at 31st December, 2002

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i> (Restated)
<b>Assets</b>				
Segment assets	129,844	37,628	492	167,964
Unallocated corporate assets				24,288
Consolidated total assets				192,252
<b>Liabilities</b>				
Segment liabilities	4,234	2,738	61	7,033
Unallocated corporate liabilities				40,094
Consolidated total liabilities				47,127



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### Business segments (continued)

##### Other information

	Manufacturing	Trading	Technical service	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure	871	621	14	1,506
Depreciation and amortisation	4,620	974	22	5,616
Allowance for doubtful debts	472	512	11	995

#### Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

	Turnover	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	95,269	70,448
Mainland China	48,939	44,829
Other Asian region	7,471	3,244
North America and Europe	1,446	1,014
Other countries	1,951	1,775
	<b>155,076</b>	121,310

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	85,877	87,028	1,343	690
Mainland China	118,288	105,181	8,414	816
	<b>204,165</b>	192,209	<b>9,757</b>	1,506

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 6. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Other operating income comprises:		
Interest income from banks	73	32
Other interest income	126	86
Net foreign exchange gains	153	245
Sundry income	272	283
	<b>624</b>	<b>646</b>

### 7. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Owned assets	5,850	5,616
Asset held under a finance lease	48	-
	<b>5,898</b>	5,616
Staff costs, including directors' remuneration	18,699	15,554
Auditors' remuneration	780	852
Allowance for doubtful debts	1,051	995
Loss on disposal of property, plant and equipment	94	2
Cost of inventories recognise as expense	<b>82,833</b>	60,462

Contributions to retirement benefits schemes of HK\$728,000 (2002: HK\$591,000) are included in staff costs.

### 8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Finance costs comprise:		
Interest on bank borrowings wholly repayable within five years	1,225	2,172
Finance lease charges	8	-
	<b>1,233</b>	<b>2,172</b>

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 9. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees	334	–
Other emoluments:		
Salaries and other benefits	3,658	2,980
Retirement benefits scheme contributions	264	222
	<b>3,922</b>	3,202
Total	<b>4,256</b>	3,202

The director's fees disclosed above include an amount of HK\$84,000 (2002: nil) payable to independent non-executive directors.

The aggregate emoluments of each of the directors for both years were within the emoluments band ranging from nil to HK\$1,000,000.

No director has waived any remunerations during the year.

### 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one (2002: one) highest paid individual are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	416	364
Retirement benefits scheme contributions	18	17
	<b>434</b>	381

During the year, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 11. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	5,437	5,210
Overprovision in prior year	(558)	(2)
	<b>4,879</b>	5,208
Deferred taxation ( <i>note 22</i> )		
Current year	(264)	215
Attributable to a change in tax rate	49	–
	<b>(215)</b>	215
	<b>4,664</b>	5,423

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

In accordance with the relevant tax laws and regulations of The People's Republic of China ("PRC"), the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. No provision for the PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 11. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	35,297	29,421
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	6,177	4,707
Tax effect of expenses not deductible for tax purpose	142	4
Tax effect of income not taxable for tax purpose	(12)	(5)
Utilisation of tax losses previously not recognised	–	(6)
Effect of tax exemptions granted to the PRC subsidiary	(1,974)	(168)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	49	–
Effect of different tax rate of the subsidiary operating in other jurisdiction	694	69
Overprovision in respect of prior year	(558)	(2)
Others	146	824
Tax charge for the year	4,664	5,423

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

### 12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid	2,400	–
Proposed final dividend	12,000	9,000
Proposed special dividend	–	3,000
Interim dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	–	55,000
	14,400	67,000

The final dividend of HK\$0.0125 (2002: HK\$0.01125) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Earnings for the purposes of basic earnings per share and diluted earnings per share	<b>30,633</b>	23,998
	<b>Number of shares</b>	
	<b>2003</b> <i>'000</i>	2002 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>800,000</b>	696,438

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	<b>Basic and diluted</b> <i>HK cents</i>
Reconciliation of 2002 earnings per share:	
Reported figures before adjustments	3.50
Adjustments arising from the adoption of SSAP12 (Revised)	(0.05)
Restated	<b>3.45</b>

The weighted average number of shares for 2002 was based on the assumption that the group reorganisation to rationalise the structure of the Company and its subsidiaries in preparing for the listing of the Company shares on the Stock Exchange which took place on 23rd October, 2002 and capitalisation issue had been completed on 1st January, 2002.

There is no difference between the basic and diluted earnings per share as the Company has no potentially dilutive ordinary shares during both years.



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improve- ments, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Yachts <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
AT COST OR VALUATION						
At 1st January, 2003	101,940	18,363	10,169	4,408	1,317	136,197
Additions	4,387	3,981	771	618	–	9,757
Disposals	–	(166)	–	(506)	–	(672)
Decrease in revaluation	(1,977)	–	–	–	–	(1,977)
At 31st December, 2003	104,350	22,178	10,940	4,520	1,317	143,305
Comprising:						
At cost	–	22,178	10,940	4,520	1,317	38,955
At valuation 2003	104,350	–	–	–	–	104,350
	104,350	22,178	10,940	4,520	1,317	143,305
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2003	–	8,720	7,112	3,756	1,185	20,773
Provided for the year	2,062	2,012	1,111	581	132	5,898
Eliminated on disposals	–	(54)	–	(483)	–	(537)
Eliminated on revaluation	(2,062)	–	–	–	–	(2,062)
At 31st December, 2003	–	10,678	8,223	3,854	1,317	24,072
NET BOOK VALUES						
At 31st December, 2003	104,350	11,500	2,717	666	–	119,233
At 31st December, 2002	101,940	9,643	3,057	652	132	115,424

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
The carrying amount of leasehold land and buildings comprises:		
Properties held under medium-term leases:		
– in Hong Kong	13,950	14,210
– elsewhere in the PRC	90,400	87,730
	<b>104,350</b>	101,940

The leasehold land and buildings of the Group were revalued by Messrs. Castores Magi Surveyors Limited, an independent firm of registered professional surveyors, at 31st December, 2003 on an open market existing use basis. The revaluation gave rise to the revaluation surplus of HK\$85,000 of which approximately HK\$29,000 has been credited to the property revaluation reserve and HK\$56,000 has been credited to the income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Cost	103,590	99,204
Accumulated depreciation and amortisation	(12,163)	(10,101)
Net book values	<b>91,427</b>	89,103

Motor vehicles include an amount of HK\$570,000 (2002: nil) in respect of asset held under a finance lease.

### 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	118,850	118,850
Amount due from a subsidiary	23,219	7,947
	<b>142,069</b>	126,797

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 15. INTERESTS IN SUBSIDIARIES (Continued)

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation as set out in note 1.

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment. The Company agreed not to demand for repayment within the next twelve months from the balance sheet date, and accordingly, the amount was shown as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2003 are set out in note 33.

### 16. OTHER INVESTMENT

#### THE GROUP AND THE COMPANY

Other investment represents investment in life insurance fund which is held for long-term purpose.

### 17. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	5,627	5,018
Work in progress	121	109
Finished goods	12,428	15,205
	<b>18,176</b>	20,332

Included in inventories are raw materials of HK\$188,000 (2002: HK\$584,000) carried at net realisable value.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 18. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$39,254,000 (2002: HK\$31,858,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	16,382	16,106
Between 31 to 60 days	13,641	7,489
Between 61 to 90 days	5,460	5,293
Over 90 days	3,771	2,970
	<b>39,254</b>	<b>31,858</b>
Other debtors, deposits and prepayments	6,144	3,895
	<b>45,398</b>	<b>35,753</b>

### 19. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$6,257,000 (2002: HK\$6,975,000) which are included in the Group's creditors and accruals is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 30 says	2,214	2,991
Between 31 to 60 days	1,276	1,657
Between 61 to 90 days	2,192	1,399
Over 90 days	575	928
	<b>6,257</b>	<b>6,975</b>
Other creditors and accruals	3,642	3,552
	<b>9,899</b>	<b>10,527</b>

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 20. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amounts payable under a finance lease:				
Within one year	183	–	156	–
More than one year, but not exceeding two years	182	–	165	–
More than two years, but not exceeding five years	244	–	235	–
	<b>609</b>	–	<b>556</b>	–
Less: future finance charges	(53)	–	–	–
Present value of lease obligations	<b>556</b>	–	<b>556</b>	–
Less: Amount due within one year shown under current liabilities			(156)	–
Amount due after one year			<b>400</b>	–

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 21. BANK BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank borrowings comprise:		
Bank overdrafts	1,210	659
Trust receipt loans	1,495	1,030
Other bank loans	19,527	24,993
	<b>22,232</b>	26,682
Analysed as:		
Secured	17,888	24,340
Unsecured	4,344	2,342
	<b>22,232</b>	26,682
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year	22,232	11,729
More than one year, but not exceeding two years	–	8,411
More than two years, but not exceeding five years	–	6,542
	<b>22,232</b>	26,682
Less: amounts due within one year shown under current liabilities	<b>(22,232)</b>	(11,729)
Amounts due after one year	–	14,953



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 22. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>				
At 1st January, 2002				
– as previously reported	429	–	–	429
– adjustment on adoption of SSAP 12 (Revised)	–	4,040	(117)	3,923
– as restated	429	4,040	(117)	4,352
Charge (credit) to income for the year	232	–	(17)	215
Charge to equity for the year	–	280	–	280
At 1st January, 2003	661	4,320	(134)	4,847
Charge (credit) to income for the year	53	–	(317)	(264)
Charge to equity for the year	–	8	–	8
Effect of a change in tax rate – charge (credit) to the income statement	62	–	(13)	49
At 31st December, 2003	776	4,328	(464)	4,640

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Deferred tax liabilities	<b>5,104</b>	4,981
Deferred tax assets	<b>(464)</b>	(134)
	<b>4,640</b>	4,847

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 23. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$'000
Authorised:		
On incorporation	40,000,000	400
Increase in authorised share capital	9,960,000,000	99,600
<hr/>		
At 31st December, 2002 and 31st December, 2003	10,000,000,000	100,000
<hr/>		
Issued and fully paid:		
Allotted and issued nil paid on 13th March, 2002	1	–
Issue of shares upon the Group Reorganisation	999,999	10
Issue of new shares	120,000,000	1,200
Capitalisation issue	679,000,000	6,790
<hr/>		
At 31st December, 2002 and 31st December, 2003	800,000,000	8,000

The following changes in the share capital of the Company took place during the period from 27th February, 2002 (date of incorporation) to 31st December, 2003:

- (a) The Company was incorporated on 27th February, 2002 with an authorised share capital of HK\$400,000 divided into 40,000,000 ordinary shares of HK\$0.01 each, one of which was allotted and issued nil paid on 13th March, 2002.
- (b) Pursuant to written resolutions of all shareholders of the Company passed on 23rd October, 2002:
  - (i) the authorised share capital of the Company was increased from HK\$400,000 to HK\$100,000,000 by the creation of an additional 9,960,000,000 new ordinary shares of HK\$0.01 each. The new shares rank pari passu in all respects with the existing shares;
  - (ii) as consideration for the acquisition of the entire issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, the directors were authorised to allot and issue an aggregate of 999,999 ordinary shares and together with the 1 ordinary share, which was allotted and issued nil paid on 13th March, 2002, credited as fully paid under the Group Reorganisation which took place on 23rd October, 2002;
  - (iii) the placing and public offer of 120,000,000 new shares of the Company of HK\$0.01 each at a price of HK\$0.25 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the Placing and Public Offer; and

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 23. SHARE CAPITAL (Continued)

- (iv) the directors were also authorised to allot and issue a total of 679,000,000 new shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 23rd October, 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK\$6,790,000 standing to the credit of the share premium account of the Company following the Placing and Public Offer mentioned in (iii) above.
- (c) On 12th November, 2002, the Company completed the issue, allotment and despatchment of 120,000,000 shares of the Company of HK\$0.01 each in connection with the Placing and Public Offer. The above resolutions became unconditional on 13th November, 2002 when the Company's shares were listed on the Main Board of the Stock Exchange. The proceeds from the shares issued above shall be used for financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and use as general working capital for the Group.

### 24. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted any to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein, and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK\$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 25. SHARE PREMIUM AND RESERVES

	Share premium <i>HK\$'000</i>	(Deficit) retained profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
Premium arising on the Group Reorganisation	118,840	–	118,840
Shares issued at premium on Placing and Public Offer	28,800	–	28,800
Issue of shares arising from capitalisation of share premium	(6,790)	–	(6,790)
Share issue expenses	(6,370)	–	(6,370)
Loss for the year	–	(78)	(78)
At 31st December, 2002	134,480	(78)	134,402
Profit for the year	–	15,826	15,826
Dividends paid	–	(14,400)	(14,400)
At 31st December, 2003	134,480	1,348	135,828

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$135,828,000 (2002: HK\$134,402,000).

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 26. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary during the year. The net assets of this subsidiary at the date of disposal were as follows:

	2003 HK\$'000	2002 HK\$'000
NET ASSETS DISPOSED OF:		
Debtors, deposits and prepayments	3,215	—
Bank balances and cash	9	—
Creditors and accruals	(120)	—
Taxation	(2,274)	—
	830	—
Loss on disposal	(30)	—
	800	—
Satisfied by:		
Cash consideration	800	—
Net cash inflow arising on disposal:		
Cash consideration	800	—
Bank balances and cash disposed of	(9)	—
	791	—

The subsidiary disposed of during the year did not contributed significantly to the Group's cash flows, turnover and profit from operations.

### 27. CONTINGENT LIABILITIES

At 31st December, 2003, the Company had contingent liabilities of HK\$10,189,000 (2002: HK\$25,022,000) in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

### 28. PLEDGE OF ASSETS

#### THE GROUP

At 31st December, 2003, leasehold land and buildings with aggregate carrying value of HK\$104,350,000 (2002: HK\$101,940,000) were pledged to banks to secure banking facilities granted to the Group.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 29. CAPITAL COMMITMENTS

At 31st December, 2003, the Group had capital commitment of HK\$1,957,000 (2002: HK\$37,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

### 30. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the income statement represents contributions payable to the MPF Scheme by the Group.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

### 31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with the related companies:

Nature of transactions	Name of related company	Notes	2003 HK\$'000	2002 HK\$'000
Purchases of property, plant and equipment	Fook Cheong Ho Limited	(i)	600	–
Rental income from	GP Nano Composite Materials Limited	(ii)	49	–
Sales to	Kansource Limited	(iii)	–	1

Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in Fook Cheong Ho Limited and Kansource Limited. Messrs. Cheng Kwok Woo and Cheng Kwong Cheong are directors of GP Nano Composite Materials Limited up to 30th December, 2003.



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 31. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) Purchase of property, plant and equipment was based on the resell value estimated by an independent third party.
  - (ii) Rental income was charged based on terms agreed by the parties concerned.
  - (iii) Sales was based on cost plus a percentage of profit mark-up.
- (b) Included in the balance of creditors and accruals as at 31st December, 2003, there is an amount due to GP Nano Composite Materials Limited of HK\$7,000 (2002: Nil), which is unsecured, interest free and repayable on demand.

### 32. POST BALANCE SHEET EVENT

On 27th January, 2004, PME Investments (BVI) Co., Ltd. ("PME Investments"), a substantial shareholder of the Company of which its entire issued capital is owned as to one-third by each of Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, directors and shareholders of the Company, entered into a Placing Agreement with China Everbright Securities (HK) Limited to place 160,000,000 existing shares of the Company (the "Placing") at HK\$0.45 per share. PME Investments also entered into a Subscription Agreement with the Company to subscribe for 160,000,000 new shares of the Company (the "Subscription") at HK\$0.45 per share. All the placed shares have been placed under the Placing Agreement and completion of the Placing took place on 2nd February, 2004. The Subscription also completed on 10th February, 2004.

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital <i>(notes a and b)</i>	Principal activities
Fook Cheong Ho International (BVI) Limited	British Virgin Islands	Ordinary shares US\$3	Investment holding, trading of polishing materials and equipment and provision of technical consultancy service
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK\$300,000 <i>(note c)</i> Ordinary shares HK\$30	Trading of polishing materials and equipment

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital <i>(notes a and b)</i>	Principal activities
PME Abrasive Products Limited	Hong Kong	Ordinary shares HK\$1,000,000	Trading of abrasive materials
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US\$30,000	Investment holding and property investment
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK\$19,200,000 <i>(note c)</i> Ordinary shares HK\$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK\$60,000	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd.	PRC	Registered capital <i>(note d)</i> HK\$40,000,000	Manufacturing and trading of polishing materials

*Notes:*

- (a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.
- (b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.
- (c) The 5% non-voting deferred shares of HK\$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK\$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.
- (d) Established as a wholly foreign owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31st December, 2003 or at any time during the year.