

1. CORPORATE INFORMATION

The principal office of K & P International Holdings Limited is located at Units 2304-06, 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of electronic and related components and parts (comprising keypads, synthetic rubber and plastic components and parts, and liquid crystal displays ("LCD")); and
- design, manufacture and sale of consumer electronic products (comprising electronic calculators, alarm clocks and LCD products).

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held under medium term leases	Over the lease terms
Buildings	2.5%
Leasehold improvements	25% to 30%
Plant and machinery	12.5% to 25%
Furniture, fixtures and office equipment	20% to 30%
Motor vehicles	20% to 25%
Moulds	20% to 33.33%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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 future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Long term investments

Non-trading investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Club memberships

Long term investments in club memberships, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods and scrap, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) tooling charge and sales commissions, when the services are rendered; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the electronic and related components and parts segment comprise the manufacture and sale of electronic and related components and parts;
- (b) the consumer electronic products segment comprise the design, manufacture and sale of consumer electronic products comprising electronic calculators, alarm clocks and liquid crystal display products; and
- (c) the corporate and others segment comprises the Group's property holding activity, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the cost of sales.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Electronic and related		Consumer		Corporate and others		Eliminations		Consolidated	
	components and parts		electronic products							
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:										
Sales to external customers	148,037,018	112,053,991	123,808,477	88,704,483	-	-	-	-	271,845,495	200,758,474
Intersegment sales	4,931,152	5,103,462	-	-	-	-	(4,931,152)	(5,103,462)	-	-
Other revenue and gains	3,618,008	3,038,627	166,080	473,134	1,632,473	2,461	-	-	5,416,561	3,514,222
Total	156,586,178	120,196,080	123,974,557	89,177,617	1,632,473	2,461	(4,931,152)	(5,103,462)	277,262,056	204,272,696
Segment results	2,382,214	(7,741,957)	13,392,100	2,984,910	(107,200)	(1,232,723)			15,667,114	(5,989,770)
Interest income									116,570	247,475
Gain on sale of long term investments, net									-	9,325,422
Profit from operating activities									15,783,684	3,583,127
Finance costs									(5,808,182)	(2,904,978)
Share of loss of an associate									(4,335,105)	(45,782)
Profit before tax									5,640,397	632,367
Tax									(2,100,475)	413,897
Net profit from ordinary activities attributable to shareholders									3,539,922	1,046,264

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Electronic and related components and parts		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	126,769,705	108,845,361	52,616,792	39,530,885	12,407,762	11,306,747	(14,663)	23,237	191,779,596	159,706,230
Investment in an associate									24,401,113	3,152,218
Unallocated assets									29,178,879	24,670,013
Total assets									245,359,588	187,528,461
Segment liabilities	39,443,469	24,044,572	22,803,736	14,243,271	1,633,810	635,212	16	(4,625)	63,881,031	38,918,430
Unallocated liabilities									76,806,133	47,301,336
Total liabilities									140,687,164	86,219,766
Other segment information:										
Depreciation and amortisation	17,510,209	16,512,841	6,382,520	5,836,041	924,668	1,266,306	-	-	24,817,397	23,615,188
Write back of provision for doubtful debts	(830)	(8,514)	-	(928,805)	-	-	-	-	(830)	(937,319)
Provision for doubtful debts	85,547	857,980	8,553	-	-	-	-	-	94,100	857,980
Surplus on revaluation of leasehold land and buildings credited to:										
Fixed assets revaluation reserve	-	-	-	-	(1,204,702)	(170,927)	-	-	(1,204,702)	(170,927)
Profit and loss account	-	-	-	-	(248,192)	(179,706)	-	-	(248,192)	(179,706)
Capital expenditure	11,256,050	19,060,950	8,280,166	3,502,892	115,567	44,097	-	-	19,651,783	22,607,939

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments.

Group

	Segment revenue		Other segment information			
	Sales to external customers		Segment assets		Capital expenditure	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	97,694,871	77,752,498	89,527,768	59,361,115	1,426,123	793,363
Mainland China	8,489,685	4,858,468	126,994,851	108,121,825	18,160,632	21,396,312
Total in the People's Republic of China ("PRC")	106,184,556	82,610,966	216,522,619	167,482,940	19,586,755	22,189,675
Japan	34,626,252	25,805,906	6,592,414	4,927,603	-	-
Other Asian countries*	16,692,168	9,086,398	10,821,447	6,963,523	65,028	418,264
Total in Asia	157,502,976	117,503,270	233,936,480	179,374,066	19,651,783	22,607,939
Germany	50,141,106	30,943,489	2,611,562	2,464,709	-	-
Other European countries**	52,342,184	41,569,123	7,438,543	4,417,089	-	-
Total in Europe	102,483,290	72,512,612	10,050,105	6,881,798	-	-
North America	7,031,381	5,223,269	555,244	364,807	-	-
Others***	4,827,848	5,519,323	817,759	907,790	-	-
Consolidated	271,845,495	200,758,474	245,359,588	187,528,461	19,651,783	22,607,939

* Other Asian countries mainly comprise Taiwan, Singapore, Malaysia, Thailand, Indonesia and Korea.

** Other European countries mainly comprise Italy, the United Kingdom, France, the Netherlands, Austria, Sweden and Spain.

*** Others mainly comprise South America, Australia and New Zealand.

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5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2003 HK\$	2002 HK\$
Turnover		
Sale of goods	271,845,495	200,758,474
Other revenue and gains		
Interest income	116,570	247,475
Tooling charge income	1,411,604	1,197,100
Sale of scrap	267,104	1,974,772
Warrant subscription reserve recognised as income upon expiry of warrants	1,389,475	–
Sales commissions	1,300,020	–
Others	1,048,358	342,350
	5,533,131	3,761,697

6. OTHER OPERATING INCOME, NET

	Group	
	2003 HK\$	2002 HK\$
Gain on sale of long term investments, net	–	9,325,422
Surplus on revaluation of leasehold land and buildings	248,192	179,706
Write back of provision/(provision) for doubtful debts, net	(93,270)	79,339
Loss on disposal of fixed assets	(60,836)	(3,767)
Others	–	(300,612)
	94,086	9,280,088

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7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2003	2002
	HK\$	HK\$
Cost of inventories sold	212,902,194	167,389,780
Auditors' remuneration	877,317	869,654
Depreciation	23,673,634	23,367,258
Minimum lease payments under operating leases on land and buildings	3,165,840	3,026,520
Amortisation of intangible assets*	1,143,763	247,930
Staff costs (including directors' other emoluments – note 9):		
Wages and salaries	64,207,254	52,085,463
Pension scheme contributions	1,026,189	518,448
	65,233,443	52,603,911
Less: Amount capitalised in deferred development costs	(1,114,400)	(998,944)
	64,119,043	51,604,967
Foreign exchange losses, net	147,146	441,082

* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

8. FINANCE COSTS

	Group	
	2003	2002
	HK\$	HK\$
Interest expenses on bank loans and overdrafts		
wholly repayable within five years	2,311,708	2,235,548
Interest on finance leases	1,118,515	669,430
Interest on convertible loan notes and fixed rate loan notes	556,358	–
Accrued premium on redemption of convertible loan notes and fixed rate loan notes	1,821,601	–
	5,808,182	2,904,978

Notes to Financial Statements

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9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2003 HK\$	2002 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	312,000	312,000
	312,000	312,000
Other emoluments paid to executive directors:		
Salaries	5,748,990	3,860,349
Pension scheme contributions	24,000	30,000
Housing benefits	–	180,000
Other allowances	150,000	170,583
	5,922,990	4,240,932
	6,234,990	4,552,932

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil – HK\$500,000	2	2
HK\$500,001 – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	2	–
HK\$2,000,001 – HK\$2,500,000	1	–
	5	6*

* Including remuneration as director of the director who resigned during the year.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. SEVEN HIGHEST PAID EMPLOYEES

The seven highest paid employees during the year included three (2002: four) executive directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2002: three) non-director, highest paid employees for the year are as set out below:

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Basic salaries, allowances and benefits in kind	3,716,200	2,693,141
Pension scheme contributions	120,145	76,174
	3,836,345	2,769,315

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follow:

	Number of employees	
	2003	2002
HK\$500,001 – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	1	1
	4	3

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11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003	2002
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the year	575,813	146,000
Overprovision in prior years	–	(179,000)
Current – elsewhere	–	76,103
Deferred (<i>note 28</i>)	1,524,662	(457,000)
Total tax charge/(credit) for the year	2,100,475	(413,897)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax charge/(credit) at the effective tax rate is as follows:

	Group	
	2003	2002
	HK\$	HK\$
Profit before tax	5,640,397	632,367
Tax at the statutory tax rate of 17.5% (2002: 16%)	987,069	101,179
Overprovision of tax in prior years	–	(179,000)
Effect on opening deferred tax of increase in rates	84,375	–
Income not subject to tax	(1,830,265)	(2,462,854)
Expenses not deductible for tax	2,482,502	242,278
Tax losses utilised from previous periods	(1,689,080)	(1,302,788)
Unrecognised tax losses	608,222	3,697,498
Others	1,457,652	(510,210)
Tax charge /(credit) at the Group's effective rate	2,100,475	(413,897)

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$1,116,335 (2002: HK\$8,847,921).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$3,539,922 (2002: HK\$1,046,264), and on the weighted average of 250,004,800 (2002: 250,004,800) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$3,539,922. The weighted average number of ordinary shares used in the calculation is the 250,004,800 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,368,946 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

In the calculations of the diluted earnings per share, the effect of the convertible loan notes and warrants outstanding during the year was not taken into account as they had an anti-dilutive effect on the basic earnings per share for the year.

A diluted earnings per share amount for the year ended 31 December 2002 had not shown as the share options and warrants outstanding during last year had an anti-dilutive effect on the basic earnings per share for last year.

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14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Moulds <i>HK\$</i>	Total <i>HK\$</i>
Cost or valuation:							
At beginning of year	26,658,507	23,890,811	89,544,646	13,274,074	2,755,079	45,099,678	201,222,795
Additions	476,107	2,633,810	2,591,110	2,214,084	173,138	8,313,534	16,401,783
Disposals	–	(5,449,091)	–	(1,144,820)	(70,000)	(18,903,475)	(25,567,386)
Surplus on revaluation	815,386	–	–	–	–	–	815,386
Exchange realignment	–	9,916	15,327	11,016	–	9,052	45,311
At 31 December 2003	27,950,000	21,085,446	92,151,083	14,354,354	2,858,217	34,518,789	192,917,889
Analysis of cost or valuation:							
At cost	–	7,517,492	27,444,416	4,382,985	300,923	12,857,120	52,502,936
At 31 December 2003 valuation	27,950,000	–	–	–	–	–	27,950,000
At 31 December 2003	27,950,000	7,517,492	27,444,416	4,382,985	300,923	12,857,120	80,452,936
Accumulated depreciation:							
At beginning of year	–	14,907,465	55,330,799	8,719,541	2,417,573	33,544,991	114,920,369
Provided during the year	637,508	4,068,903	9,372,975	2,368,491	209,721	7,016,036	23,673,634
Disposals	–	(5,412,414)	–	(1,120,661)	(70,000)	(18,903,475)	(25,506,550)
Written back on revaluation	(637,508)	–	–	–	–	–	(637,508)
Exchange realignment	–	4,000	2,893	3,998	–	4,117	15,008
At 31 December 2003	–	13,567,954	64,706,667	9,971,369	2,557,294	21,661,669	112,464,953
Net book value:							
At 31 December 2003	27,950,000	7,517,492	27,444,416	4,382,985	300,923	12,857,120	80,452,936
At 31 December 2002	26,658,507	8,983,346	34,213,847	4,554,533	337,506	11,554,687	86,302,426
Net book value held under finance leases:							
At 31 December 2003	–	–	18,061,752	140,889	–	–	18,202,641
At 31 December 2002	–	–	16,682,379	604,276	–	–	17,286,655

14. FIXED ASSETS *(continued)*

The Group's leasehold land and buildings are held under the following lease terms, with geographical locations as follows:

	PRC		Total <i>HK\$</i>
	Hong Kong <i>HK\$</i>	Mainland China <i>HK\$</i>	
Medium term leases, at valuation	9,450,000	18,500,000	27,950,000

At 31 December 2003, the Group's leasehold land and buildings situated in Hong Kong were revalued on an open market, existing use basis by Chung, Chan & Associates, a firm of independent professionally qualified property valuers. The Group's leasehold land and buildings situated in Mainland China were revalued using the depreciated replacement cost method by the same firm of property valuers as at 31 December 2003.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been included in the financial statements at approximately HK\$28,693,600 (2002: HK\$28,990,551).

The Group's leasehold land and buildings were pledged to secure general banking facilities granted to the Group (note 24 to the financial statements).

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15. INTANGIBLE ASSETS

Group

	Technical know-how <i>HK\$</i>	Deferred development costs <i>HK\$</i>	Total <i>HK\$</i>
Cost:			
At beginning of year	1,239,647	1,750,000	2,989,647
Additions	–	3,250,000	3,250,000
At 31 December 2003	1,239,647	5,000,000	6,239,647
Accumulated amortisation:			
At beginning of year	909,075	–	909,075
Provided during the year	247,930	895,833	1,143,763
At 31 December 2003	1,157,005	895,833	2,052,838
Net book value:			
At 31 December 2003	82,642	4,104,167	4,186,809
At 31 December 2002	330,572	1,750,000	2,080,572

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Unlisted shares, at cost	58,999,981	58,999,981
Due from subsidiaries	99,991,327	78,425,212
	158,991,308	137,425,193
Provisions against amounts due from subsidiaries	(11,018,779)	(11,018,779)
	147,972,529	126,406,414

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Bistec Corporation Limited	Hong Kong	HK\$2,000,000	100	Investment holding
Cokeen Development Limited	Hong Kong	HK\$10,000	100	Property holding and provision of management services
E-Dotcom Limited	Hong Kong	HK\$2	100	Investment holding
Gaiki Silicone Products Limited	Hong Kong	HK\$10,000	100	Manufacturing of silicone rubber products
Hideki Precision (BVI) Limited	British Virgin Islands	US\$1	100	Intellectual property holding
Hideki Electronics Limited	Hong Kong	HK\$2,000,000	100	Sale of consumer electronic products
Hi-Tech (China) Investment Limited	Hong Kong	HK\$2,000,000	100	Investment holding
Hi-Tech Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	Investment holding
Hi-Tech Polymer (China) Inc.	Western Samoa/PRC/ Mainland China	US\$1	100	Manufacturing of synthetic rubber products
Hi-Tech Polymer Limited	Hong Kong	HK\$10,000	100	Sale of synthetic rubber products

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16. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Hi-Tech Precision Plastic Limited	Hong Kong	HK\$3,000,000	100	Sale of plastic products
Hi-Tech Property Holdings Limited	British Virgin Islands/ PRC/Mainland China	US\$1	100	Property holding
Hi-Tech Silicone Rubber Manufactory Limited	Hong Kong	HK\$1,500,000	100	Sale of silicone rubber products
K & P Group (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$1,238,545	100	Investment holding
K. S. (China) Electronics Manufactory Limited	Hong Kong	HK\$2	100	Investment holding
Mars Field Limited	British Virgin Islands/ PRC/Mainland China	US\$1	100	Manufacturing of consumer electronic products and electronic and related components and parts
Shenzhen Jiancheng Electronic Co., Ltd. ("Shenzhen Jiancheng")	PRC/Mainland China	HK\$12,000,000	*	Manufacturing and sale of consumer electronic products
Technology Trends International Limited	British Virgin Islands/ Republic of Singapore	US\$50,000	100	Sale of electronic and related components and parts

16. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
TQL Technology Limited	Hong Kong	HK\$7,000,000	100	Manufacturing and sale of liquid crystal displays
Webborton Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding

Except for K & P Group (Holdings) Limited, all of the above subsidiaries are indirectly held by the Company.

- * Shenzhen Jiancheng is registered as a co-operative joint venture company under the laws of the People's Republic of China (the "PRC"). Pursuant to the co-operative joint venture contract with the PRC joint venture partner, the Group contributed all of the registered capital of Shenzhen Jiancheng. The PRC joint venture partner is entitled to certain monthly and annual fees regardless of the amount of profit or loss made by Shenzhen Jiancheng, and the Group is entitled to all of the profits, and is liable for all of the losses, of Shenzhen Jiancheng after payment of such fees to the PRC joint venture partner. The initial term of the joint venture expires on 25 January 2009 and can be extended with the consent of the joint venture partners and the approval of the relevant PRC government authority. On expiry of the initial term of the joint venture, the joint venture agreement provides that ownership of all of the immovable assets of the joint venture will revert to the PRC joint venture partner while other assets will initially be used to settle the wages of all employees and all the liabilities of Shenzhen Jiancheng. Any remaining balance will be distributed to the Group.

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

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17. INVESTMENT IN AN ASSOCIATE

	Group	
	2003 HK\$	2002 HK\$
Share of net assets	24,401,113	3,152,218

Particulars of the associate are as follows:

Company name	Business structure	Place of incorporation and operations	Nominal value of issued and paid-up share	Percentage of equity interest attributable to the Company	Principal activities
YOUEAL TTI Limited	Corporate	Hong Kong	US\$9,000,000	41	Investment holding

The shareholding in the associate is held through a wholly-owned subsidiary.

Financial information as extracted from the most recent financial statements of the Group's associate is set out below:

Consolidated profit and loss account

Year ended 31 December 2003

	2003 HK\$	2002 HK\$
Turnover	7,505,424	–
Net loss attributable to shareholders	10,573,426	111,664

Consolidated balance sheet

31 December 2003

	2003 HK\$	2002 HK\$
Non-current assets	45,883,564	480,178
Current assets	26,813,654	7,602,974
Current liabilities	(13,182,308)	(394,816)
Net assets	59,514,910	7,688,336

Notes to Financial Statements

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18. LONG TERM INVESTMENTS

	Group	
	2003 HK\$	2002 HK\$
At cost:		
Unlisted equity investments	2,808,450	308,450
Club membership	600,000	600,000
	3,408,450	908,450

Subsequent to the balance sheet date, on 1 February 2004, one of the unlisted equity investments with a carrying value of HK\$308,450 was converted into shares of an overseas company, which is listed in an overseas stock exchange. The converted shares were disposed of in the open market between 31 March 2004 and 6 April 2004 for an aggregate cash consideration of HK\$5,422,286, giving rise to a gain of HK\$5,076,477, net of expenses of HK\$37,359.

19. INVENTORIES

	Group	
	2003 HK\$	2002 HK\$
Raw materials	24,193,468	15,158,574
Work in progress	10,126,372	8,241,645
Finished goods	1,968,835	2,520,925
	36,288,675	25,921,144
Less: Provisions for slow-moving inventories	(118,749)	(118,749)
	36,169,926	25,802,395

There were no inventories carried at net realisable value at the balance sheet date (2002: Nil).

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Prepayments	431,455	272,145	88,185	72,985
Deposits and other receivables	13,354,067	8,821,690	–	–
	13,785,522	9,093,835	88,185	72,985

Included in prepayments, deposits and other receivables at 31 December 2002 was an amount due from an associate of HK\$315,859, which was unsecured, interest-free and had no fixed terms of repayment. This amount was settled during the year.

21. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are largely on credit. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2003 HK\$	2002 HK\$
Within 90 days	40,749,619	26,199,330
Between 91 to 180 days	5,861,830	3,441,343
Over 180 days	2,444,504	1,157,879
	49,055,953	30,798,552

Notes to Financial Statements

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Cash and bank balances	12,618,842	7,826,707	414,241	11,321
Time deposits	8,095,224	8,117,530	–	–
	20,714,066	15,944,237	414,241	11,321

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2003 HK\$	2002 HK\$
Bank overdrafts		–	1,389,847
Current portion of bank loans		39,590,623	30,813,757
	24	39,590,623	32,203,604
Current portion of finance lease payables	26	5,992,827	5,451,879
		45,583,450	37,655,483

Notes to Financial Statements

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24. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND OTHER LOANS

	Group	
	2003 HK\$	2002 HK\$
Unsecured:		
Bank overdrafts	–	520,078
Trust receipt loans	2,504,894	2,707,817
Bank loans	19,412,367	14,054,349
	21,917,261	17,282,244
Secured:		
Bank overdrafts	–	869,769
Trust receipt loans	9,974,885	6,640,053
Money market loan	4,000,000	4,000,000
Mortgage loans	1,017,162	1,365,096
Instalment loans	3,908,995	6,890,304
Total interest-bearing bank loans, overdrafts and other loans	40,818,303	37,047,466
Portion due within one year, classified as current liabilities (<i>note 23</i>)	(39,590,623)	(32,203,604)
Long term portion	1,227,680	4,843,862
The bank borrowings are repayable:		
Within one year or on demand	39,590,623	32,203,604
In the second year	960,558	3,628,310
In the third to fifth years, inclusive	267,122	1,215,552
	40,818,303	37,047,466

The secured bank borrowings were secured by fixed charges over the Group's medium term leasehold land and buildings with a net book value of HK\$22,450,000 (2002: HK\$26,658,507) and over bank deposits amounting to HK\$8,238,270 (2002: HK\$8,177,287).

25. TRADE PAYABLES

An aged analysis of the trade payables as at balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$	2002 HK\$
Within 90 days	35,958,662	20,616,641
Between 91 to 180 days	2,717,528	1,062,637
Over 180 days	5,243	24,514
	38,681,433	21,703,792

26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and equipment for its businesses. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Amounts payable:				
Within one year	6,511,235	5,848,227	5,992,827	5,451,879
In the second year	4,553,523	2,800,322	4,357,465	2,666,670
In the third to fifth years, inclusive	1,062,577	1,002,033	1,047,057	983,958
Total minimum finance lease payments	12,127,335	9,650,582	11,397,349	9,102,507
Future finance charges	(729,986)	(548,075)		
Total net finance lease payables	11,397,349	9,102,507		
Portion classified as current liabilities (note 23)	(5,992,827)	(5,451,879)		
Long term portion	5,404,522	3,650,628		

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27. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Accrued liabilities	11,072,923	14,922,259	124,777	96,000
Other payables	14,126,675	2,292,379	5,850	5,853
	25,199,598	17,214,638	130,627	101,853

28. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities, which comprised accelerated tax depreciation, during the year is as follows:

	Group	
	2003 HK\$	2002 HK\$
At 1 January 2003	900,000	1,357,000
Deferred tax charged/(credited) to the profit and loss account during the year including a charge of HK\$84,375 (2002: Nil) due to the effect of a change in tax rate (<i>note 11</i>)	1,524,662	(457,000)
At 31 December 2003	2,424,662	900,000

The Group has tax losses arising in Hong Kong of HK\$9,673,000 (2002: HK\$6,197,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. CONVERTIBLE LOAN NOTES AND FIXED RATE LOAN NOTES

	Group and Company	
	2003 HK\$	2002 HK\$
Convertible loan notes	11,189,262	–
Fixed rate loan notes	10,639,339	–
	21,828,601	–
Portion classified as current liabilities	(10,639,339)	–
	11,189,262	–

Pursuant to the subscription agreements between the Company and several independent investors (the "Subscription Agreements") dated 3 March 2003, the Company issued to the investors convertible loan notes with an aggregate principal amount of US\$1,282,500 (equivalent to approximately HK\$10,003,500). The convertible loan notes bear interest at the rate of 2% per annum, which is payable quarterly in arrears on 17 June, 17 September, 17 December, 17 March in each year. The notes are convertible into ordinary shares of the Company, at the option of the investors at any time during the period commencing from the date falling 24 months after the issue of the notes on 17 March 2003, up to and including the day immediately prior to the maturity date of the convertible notes, at an initial conversion price of HK\$0.40 per share (subject to adjustment). The maturity date of the convertible loan notes will be on 16 June 2005. The shares to be issued on any exercise of the conversion rank pari passu in all respects with the Company's shares already in issue. Any outstanding convertible loan notes will be redeemed at maturity by the Company at 132.25% of the principal value. Alternatively, they can be redeemed at the option of the investors at any time on or after 17 March 2004 to redeem part or all of the outstanding principal amount in accordance with the following formula:

$$\text{Redemption amount} = \text{HK\$}10,003,500 \times 1.15 \times (1 + 0.15 \times A/365)$$

where

A is the number of days elapsed from (and including) 17 March 2004 up to (but excluding) the relevant redemption date

Pursuant to the Subscription Agreements, the Company also issued to the investors fixed rate loan notes with an aggregate principal amount of US\$1,282,500 (equivalent to approximately HK\$10,003,500). The fixed rate loan notes bear interest at the rate of 5% per annum, which is payable quarterly in arrears on 17 June, 17 September, 17 December, 17 March in each year. The notes are not convertible into ordinary shares in the Company. The fixed rate loan notes will be redeemed at maturity by the Company at 115% of the principal value. Alternatively, they can be early redeemed at the option of the Company, at 108% of the principal value, on 17 March 2004. The maturity date of the fixed rate loan notes will be on 16 March 2005.

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29. CONVERTIBLE LOAN NOTES AND FIXED RATE LOAN NOTES *(continued)*

The Group has accrued premium on redemption of the above convertible loan notes amounting to HK\$1,185,762, which was charged to the current year's profit and loss account. At the balance sheet date, the aggregate of convertible loan notes and accrued premium on redemption amounting to HK\$11,189,262 was recorded as a non-current liability in the balance sheet.

The Group has accrued premium on redemption of the above fixed rate loan notes amounting to HK\$635,839, which was charged to the current year's profit and loss account. At the balance sheet date, the aggregate of fixed rate loan notes and accrued premium on redemption amounting to HK\$10,639,339 was recorded as a current liability in the balance sheet.

Subsequent to the balance sheet date, on 17 March 2004, the above fixed rate loan notes were redeemed by the Company at US\$1,385,100 (equivalent to approximately HK\$10,803,780).

30. SHARE CAPITAL

	Group and Company	
	2003 HK\$	2002 HK\$
Shares		
<i>Authorised:</i>		
900,000,000 shares of HK\$0.10 each	90,000,000	90,000,000
<i>Issued and fully paid:</i>		
252,504,800 (2002: 250,004,800) of HK\$0.10 each	25,250,480	25,000,480

On 31 December 2003, the subscription rights attaching to 2,500,000 share options were exercised at the subscription price of HK\$0.16 per share (note 31), resulting in the issue of 2,500,000 shares of HK\$0.10 each for a total cash consideration of HK\$400,000.

A summary of the transaction during the year with reference to the above movement in the issued share capital of the Company is as follows:

	Number of shares	Issued share capital HK\$	Share premium account HK\$	Total HK\$
At 1 January 2002 and 2003	250,004,800	25,000,480	49,611,281	74,611,761
Share options exercised	2,500,000	250,000	150,000	400,000
At 31 December 2003	252,504,800	25,250,480	49,761,281	75,011,761

30. SHARE CAPITAL *(continued)***Share options**

Details of the Company's share option scheme are included in note 31 to the financial statements.

Warrants

On 16 March 2001, the Company issued 30,000,000 warrants at an issue price of HK\$0.05 each to independent investors. Each of these warrants entitles the holders thereof to subscribe for one new ordinary share of the Company of HK\$0.10 at a subscription price of HK\$0.30 per share payable in cash and subject to adjustment, from March 2001 to March 2003. No subscription right was exercised by the warrant holders up to the expiry date of the warrants on 15 March 2003, and accordingly, the subscription rights attaching to these warrants lapsed and the warrants ceased to be valid thereafter.

31. SHARE OPTION SCHEME

On 4 December 1996, the Company adopted a share option scheme (the "Old Scheme"), which was the first share option scheme of the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Old Scheme was terminated and replaced by a new share option scheme at the annual general meeting of the Company held on 27 May 2002 (the "New Scheme"). Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The maximum number of unexercised share options currently permitted to be granted under the Old Scheme and the New Scheme must not in aggregate exceed 30% of the shares of the Company in issue at any time.

A summary of the share option schemes of the Company is as follows:

	Old Scheme	New Scheme
Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest ("Invested Entity").

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31. SHARE OPTION SCHEME *(continued)*

A summary of the share option schemes of the Company is as follows *(continued)*:

	Old Scheme	New Scheme
Participants	Full-time employees (including executive directors) of the Company or any of its subsidiaries.	<ul style="list-style-type: none"> (i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	Not applicable	25,000,480 ordinary shares and 9.90% of the issued share capital

31. SHARE OPTION SCHEME (continued)

A summary of the share option schemes of the Company is as follows (continued):

	Old Scheme	New Scheme
Maximum entitlement of each participant	Shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme.	Shall not exceed 1% of the issued share capital of the Company in any 12-month period.
Period within which the securities must be taken up under an option	An option may be exercised at any time during the 3-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the 3-year period or the tenth anniversary of the date on which the scheme is adopted by resolution of the Company in a general meeting, whichever is earlier.	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of the grant of options subject to the provisions for early termination thereof.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised.	There is no minimum period for which an option granted must be held before it can be exercised.
Amount payable on acceptance	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.
Period within which payments/calls/loans must be made/repaid	Not applicable.	Not applicable.

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31. SHARE OPTION SCHEME (continued)

A summary of the share option schemes of the Company is as follows (continued):

	Old Scheme	New Scheme
Basis of determining the exercise price	Determined by the directors based on the higher of (i) 80% of the average closing price of the ordinary shares on the Stock Exchange of the five trading days immediately preceding the date of the grant of options; and (ii) the nominal value of shares.	Determined by the directors but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of options; and (iii) the nominal value of shares.
The remaining life of the scheme	The scheme was terminated on 27 May 2002, but the provision of the scheme shall remain in force until 3 December 2006.	The scheme remains in force until 26 May 2012.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

31. SHARE OPTION SCHEME (continued)

The particulars in relation to each share option scheme of the Company that are required under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34 are disclosed as follows:

(a) Old Scheme

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares ***		
	At 1	Exercised	Lapsed	Cancelled	At 31			Exercise	At	At exercise
	January	during	during	during	December			price	grant date	date of
	2003	the year	the year	the year	2003	options*	options	of share options** HK\$	of options of options HK\$	of options of options HK\$
Directors										
Lai Pei Wor	2,500,000	(2,500,000)	-	-	-	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	0.205
Chan Yau Wah	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	-
Chung Yik Cheung, Raymond	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	-
	7,500,000	(2,500,000)	-	-	5,000,000					
Other employees										
In aggregate	8,000,000	-	-	-	8,000,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	-
	15,500,000	(2,500,000)	-	-	13,000,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

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31. SHARE OPTION SCHEME *(continued)*

(b) New Scheme

During the year, no options to subscribe for ordinary shares in the Company were granted to any eligible participants, including the directors or their respective employees of the Company or any of its subsidiaries under the New Scheme.

At the balance sheet date, the Company had 13,000,000 (2002: 15,500,000) share options outstanding under the share option schemes which represented approximately 5.1% (2002: 6.2%) of the Company's shares in issues at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 13,000,000 (2002: 15,500,000) additional ordinary shares of the Company and additional share capital of HK\$1,300,000 (2002: HK\$1,550,000) and share premium of HK\$780,000 (2002: HK\$930,000) (before issue expenses).

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21.

The contributed surplus of the Group arose as a result of the Group's reorganisation and represents the difference between the nominal value of the share capital of the former holding company of the Group, K & P Group (Holdings) Limited, prior to the Group's reorganisation in preparation for the listing of the Company's shares in 1996, over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve.

Goodwill amounting to HK\$11,924,221 arising on the acquisition of subsidiaries in prior years, which is stated at its cost, remains eliminated against consolidated retained profits as explained in note 3 to the financial statements.

32. RESERVES (continued)**(b) Company**

	Share premium account	Warrant subscription reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2002	49,611,281	1,389,475	49,999,981	(8,460,271)	92,540,466
Net profit for the year	–	–	–	8,847,921	8,847,921
At 31 December 2002					
and at 1 January 2003	49,611,281	1,389,475	49,999,981	387,650	101,388,387
Issue of shares	150,000	–	–	–	150,000
Warrant subscription reserve recognised as income upon expiry of warrants	–	(1,389,475)	–	–	(1,389,475)
Net profit for the year	–	–	–	1,116,335	1,116,335
At 31 December 2003	49,761,281	–	49,999,981	1,503,985	101,265,247

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of K & P Group (Holdings) Limited and its subsidiaries at the date on which the Group's reorganisation became effective, referred to in note 32(a), over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**Major non-cash transactions**

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$10,030,418 (2002: HK\$6,065,886).

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34. POST BALANCE SHEET EVENTS

- (a) On 1 February 2004, one of the unlisted equity investments with a carrying value of HK\$308,450 was converted into shares of an overseas company, which is listed in an overseas stock exchange. The converted shares were disposed of in the open market between 31 March 2004 and 6 April 2004 for an aggregate cash consideration of HK\$5,422,286, as further detailed in note 29 to the financial statements.
- (b) On 17 March 2004, fixed rate loan notes were redeemed by the Company at US\$1,385,100 (equivalent to approximately HK\$10,803,780), as further detailed in note 29 to the financial statements.

35. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Bills discounted with recourse	5,721,820	4,482,063	–	–
Guarantee of loan facility granted to subsidiaries	–	–	88,379,823	75,431,408
	5,721,820	4,482,063	88,379,823	75,431,408

36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and factories under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK\$	2002 HK\$
Within one year	362,618	846,308
In the second to fifth years, inclusive	–	452,434
	362,618	1,298,742

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$	<i>HK\$</i>
Capital commitments contracted, but not provided for:		
Land and buildings	4,650,000	4,650,000
Plant and machinery	109,275	109,275
Investment in an associate	3,198,000	–
	7,957,275	4,759,275
Commitment authorised, but not contracted for, in respect of investment in an associate	–	28,782,000
	7,957,275	33,541,275

At the balance sheet date, the Company did not have any significant capital commitments.

38. RELATED PARTY TRANSACTIONS

Details of the Group's advances to an associate are included in note 20 to the financial statements.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2004.