

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries and associates are set out in notes 38 and 39, respectively.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants (the "HKSA"). The terms of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. 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 amount 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. Comparative figures have been restated in order to achieve a consistent presentation.

The adoption of SSAP 12 (Revised) has resulted in an increase in accumulated losses of HK\$16,854,000 at 1 January 2002, representing the cumulative effect of the change in policy on results for period prior to 1 January 2002. The change has resulted in a decrease in profit of HK\$854,000 for the year ended 31 December 2003 (2002: an increase in loss of HK\$546,000).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective date of acquisition or disposal, respectively.

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

### **Goodwill**

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

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary or associate.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Negative goodwill** *(Continued)*

Negative goodwill arising on the acquisition of an associate after 1 January 2001 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries after 1 January 2001 is presented separately in the balance sheet as a deduction from assets.

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

### **Investments in subsidiaries**

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

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments in securities** *(Continued)*

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### **Revenue recognition**

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

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

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 rate applicable.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

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

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of assets, other than properties under development, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired lease term
Buildings	4% or over the term of lease, whichever is shorter
Plant and equipment	5% - 15%
Others	6% - 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. 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 lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

### Technology licence rights

Technology licence rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is provided to write off the cost of such rights on a straight line basis over their estimated useful lives.

### Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Inventories

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

The cost of properties for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is the estimated selling price less all estimated costs to completion and the estimated costs necessary to make the sale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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 an income immediately.

### **Retirement benefits scheme**

Contributions to retirement benefits schemes are charged to the income statement as an expense.

### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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

### **Taxation**

The charge for taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. 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 periods and it further excludes items that are never taxable or deductible.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Taxation** *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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 and associates, except where the Group is able to control the reversal of the temporary differences 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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.

### **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 4. TURNOVER AND COST OF SALES AND SERVICES

- (a) Turnover represents the gross invoiced sales of goods less discounts and returns, proceeds on sales of properties, rental income, interest income and investment income as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Sales of goods	1,091,250	1,086,410
Proceeds on sales of properties	120,377	163,387
Rental income	25,776	43,194
Interest income	2,230	3,745
Investment income	-	3,089
	<u>1,239,633</u>	<u>1,299,825</u>

- (b) Cost of sales and services includes an amount of HK\$23,104,000 (2002: nil) being reversal of allowance for obsolete inventories.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

### (a) Business segments

Segment information in respect of turnover for the year ended 31 December 2003 is presented below:

#### INCOME STATEMENT

	External sales HK\$'000	Inter- segment sales HK\$'000	Total turnover HK\$'000
<b>TURNOVER</b>			
Manufacturing			
Plastic products	329,112	19,076	348,188
Liquid crystal display	63,226	-	63,226
Audio-video products	239,138	-	239,138
Printed circuit boards	83,363	-	83,363
Telecommunication products	79,340	-	79,340
Intelligent chargers and security system	258,406	654	259,060
Other products	9,748	-	9,748
Property	146,155	9,260	155,415
Trading	28,914	-	28,914
Finance	2,231	2,322	4,553
	<u>1,239,633</u>	<u>31,312</u>	<u>1,270,945</u>
Elimination	<u>-</u>	<u>(31,312)</u>	<u>(31,312)</u>
Consolidated total	<u>1,239,633</u>	<u>-</u>	<u>1,239,633</u>

Inter-segment sales are charged at prevailing market prices.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (a) Business segments *(Continued)*

Segment information in respect of the results for the year ended 31 December 2003 is presented below:

#### RESULTS

	<b>Amount</b> <i>HK\$'000</i>
Manufacturing	
Plastic products	33,825
Liquid crystal display	3,541
Audio-video products	(7,189)
Printed circuit boards	10,328
Telecommunication products	4,103
Intelligent chargers and security system	27,130
Other products	(10,955)
Property	47,668
Trading	(4,321)
Finance	14,457
	<hr/>
	118,587
Elimination	(14,636)
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Total segment results	103,951
Unallocated corporate income	52,816
Unallocated corporate expenses	(35,508)
	<hr/>
Profit from operations	121,259
Finance costs	(64,645)
Share of results of associates <i>(note)</i>	3,701
Loss on deemed disposal/disposal of subsidiaries	(28,331)
Gain on partial disposal of subsidiaries	238
Loss on disposal of an associate	(78)
	<hr/>
Profit before taxation	32,144
Taxation	(5,432)
	<hr/>
Profit before minority interests	<u>26,712</u>
<i>Note:</i>	
Share of results of associates:	
Manufacturing	
Telecommunication products	6,712
Other products	(1,966)
Trading	180
Others	(1,225)
	<hr/>
	<u>3,701</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (a) Business segments *(Continued)*

Segment information in respect of balance sheet at 31 December 2003 is presented below:

#### BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>			
Manufacturing			
Plastic products	260,392	–	260,392
Liquid crystal display	74,399	–	74,399
Audio-video products	144,361	–	144,361
Printed circuit boards	120,856	–	120,856
Telecommunication products	–	66,184	66,184
Intelligent chargers and security system	126,580	–	126,580
Other products	82,728	31,791	114,519
Property	601,380	–	601,380
Trading	75,233	7,863	83,096
Finance	849,090	–	849,090
Others	35,753	15,976	51,729
	<u>2,370,772</u>	<u>121,814</u>	2,492,586
Unallocated corporate assets			<u>238,614</u>
Consolidated total			<u>2,731,200</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments (Continued)

#### BALANCE SHEET (Continued)

	Segment liabilities HK\$'000
<b>LIABILITIES</b>	
Manufacturing	
Plastic products	85,549
Liquid crystal display	12,472
Audio-video products	86,325
Printed circuit boards	35,347
Intelligent chargers and security system	60,677
Other products	78,458
Property	68,468
Trading	6,204
Finance	480,308
Others	912
	<u>914,720</u>
Unallocated corporate liabilities	912,989
	<u>1,827,709</u>

	Capital additions HK\$'000	Depreciation HK\$'000	Amortisation of development costs, goodwill and licence right HK\$'000	Impairment losses HK\$'000	Surplus on revaluation of investment properties HK\$'000	Reversal of allowance for obsolete inventories HK\$'000	Reversal of allowance for doubtful debts HK\$'000	Gain (loss) on disposal of property, plant and equipment HK\$'000
<b>OTHER INFORMATION</b>								
Manufacturing	68,722	36,764	1,911	7,106	70	13,203	5,866	23,152
Property	188	8,702	-	-	5,840	-	(4,304)	(204)
Trading	15	699	-	5,533	-	9,901	2,700	(125)
Finance	-	-	-	-	-	-	-	-
Others	24	5,342	-	-	-	-	-	(6,129)
	<u>68,949</u>	<u>51,507</u>	<u>1,911</u>	<u>12,639</u>	<u>5,910</u>	<u>23,104</u>	<u>4,262</u>	<u>16,694</u>
Consolidated total	<u>68,949</u>	<u>51,507</u>	<u>1,911</u>	<u>12,639</u>	<u>5,910</u>	<u>23,104</u>	<u>4,262</u>	<u>16,694</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (a) Business segments *(Continued)*

Segment information in respect of turnover for the year ended 31 December 2002 is presented below:

#### INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter- segment sales <i>HK\$'000</i>	Total turnover <i>HK\$'000</i>
<b>TURNOVER</b>			
Manufacturing			
Plastic products	261,373	17,136	278,509
Liquid crystal display	50,873	–	50,873
Audio-video products	247,279	–	247,279
Printed circuit boards	89,405	–	89,405
Telecommunication products	117,126	49	117,175
Intelligent chargers and security system	230,579	689	231,268
Other products	17,362	–	17,362
Property	194,343	6,965	201,308
Trading	84,651	–	84,651
Finance	3,745	6,672	10,417
Others	3,089	–	3,089
	<u>1,299,825</u>	<u>31,511</u>	<u>1,331,336</u>
Elimination	–	(31,511)	(31,511)
Consolidated total	<u><u>1,299,825</u></u>	<u><u>–</u></u>	<u><u>1,299,825</u></u>

Inter-segment sales are charged at prevailing market prices.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (a) Business segments *(Continued)*

Segment information in respect of the results for the year ended 31 December 2002 is presented below:

#### RESULTS

	Amount HK\$'000
Manufacturing	
Plastic products	37,797
Liquid crystal display	1,457
Audio-video products	(19,401)
Printed circuit boards	19,299
Telecommunication products	5,733
Intelligent chargers and security system	25,225
Other products	(21,797)
Property	(86,315)
Trading	(19,226)
Finance	(14,755)
Others	(62,596)
	<u>(134,579)</u>
Elimination	<u>(16,737)</u>
Total segment results	(151,316)
Unallocated corporate expenses	<u>(47,102)</u>
Loss from operations	(198,418)
Finance costs	(79,578)
Share of results of associates <i>(note)</i>	(6,236)
Gain on disposal of subsidiaries	7,840
Loss on disposal of an associate	<u>(14,880)</u>
Loss before taxation	(291,272)
Taxation	<u>(12,571)</u>
Loss before minority interests	<u><u>(303,843)</u></u>
<i>Note:</i>	
Share of results of associates:	
Manufacturing	
Telecommunication products	(3,401)
Other products	(1,699)
Others	<u>(1,136)</u>
	<u><u>(6,236)</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (a) Business segments *(Continued)*

Segment information in respect of balance sheet at 31 December 2002 is presented below:

#### BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>			
Manufacturing			
Plastic products	193,884	–	193,884
Liquid crystal display	62,048	–	62,048
Audio-video products	157,309	–	157,309
Printed circuit boards	112,094	–	112,094
Telecommunication products	239,677	40,146	279,823
Intelligent chargers and security system	99,483	–	99,483
Other products	25,268	9,855	35,123
Property	602,646	–	602,646
Trading	102,511	–	102,511
Finance	927,197	–	927,197
Others	7,260	41,518	48,778
	<u>2,529,377</u>	<u>91,519</u>	2,620,896
Unallocated corporate assets			<u>259,854</u>
Consolidated total			<u>2,880,750</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments (Continued)

#### BALANCE SHEET (Continued)

	Segment liabilities HK\$'000
<b>LIABILITIES</b>	
Manufacturing	
Plastic products	51,558
Liquid crystal display	7,325
Audio-video products	92,381
Printed circuit boards	19,880
Telecommunication products	155,953
Intelligent chargers and security system	42,826
Other products	9,077
Property	60,379
Trading	28,894
Finance	447,290
Others	14,928
	<u>930,491</u>
Unallocated corporate liabilities	<u>1,057,043</u>
Consolidated total	<u><u>1,987,534</u></u>

	Capital additions	Depreciation	Amortisation of development cost	Impairment losses	Deficit on revaluation of investment properties	Allowance for amount due from an associate	Allowance for obsolete inventories	Allowance for doubtful debts	Loss on disposal of property, plant and equipment
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>OTHER INFORMATION</b>									
Manufacturing	58,939	49,034	4,935	6,254	-	30,162	3,642	8,900	7,917
Property	5,057	8,268	-	20,904	68,431	-	2,603	138	2,952
Trading	45	634	-	-	-	-	-	17,649	-
Finance	-	2	-	-	-	-	-	-	-
Others	107	6,070	-	34,915	-	-	-	912	425
Consolidated total	<u>64,148</u>	<u>64,008</u>	<u>4,935</u>	<u>62,073</u>	<u>68,431</u>	<u>30,162</u>	<u>6,245</u>	<u>27,599</u>	<u>11,294</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market		Profit (loss) from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	942,311	1,014,590	95,950	(116,677)
The People's Republic of China, other than Hong Kong (the "PRC")	297,322	285,235	8,001	(34,639)
	<u>1,239,633</u>	<u>1,299,825</u>	<u>103,951</u>	<u>(151,316)</u>
Unallocated corporate income			52,816	-
Unallocated corporate expenses			<u>(35,508)</u>	<u>(47,102)</u>
Profit (loss) from operations			<u>121,259</u>	<u>(198,418)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### (b) Geographical segments *(Continued)*

- (ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,735,938	1,967,054	12,335	22,527
The PRC	995,262	913,696	56,614	41,621
	<u>2,731,200</u>	<u>2,880,750</u>	<u>68,949</u>	<u>64,148</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 6. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Allowance for obsolete inventories	-	6,245
Amortisation of development costs ( <i>note a</i> )	1,396	4,935
Amortisation of goodwill ( <i>note b</i> )	138	-
Amortisation of technology licence right ( <i>note a</i> )	377	-
Auditors' remuneration	3,064	4,818
Cost of inventories consumed	773,998	878,878
Depreciation on		
- owned assets	50,158	63,010
- assets held under finance leases	1,349	998
Loss on disposal of property, plant and equipment	-	11,294
Minimum lease payments paid under operating leases on land and buildings	6,296	7,321
Research expenses	4,800	8,652
Total staff costs, including directors' remuneration	145,520	160,161
and after crediting:		
Gross rental income from		
- land and buildings	6,335	6,219
- investment properties	19,441	35,277
- properties for sale	-	1,698
	25,776	43,194
Less: Outgoings	(5,317)	(6,001)
	20,459	37,193
Dividend income from listed investment securities	-	3,089
Gain on disposal of property, plant and equipment	16,694	-
Interest income	2,230	3,745
Reversal of allowance for obsolete inventories ( <i>note a</i> )	23,104	-
Waiver of interest expense on other loans ( <i>note c</i> )	36,273	-

Notes:

- a. The amounts are included in cost of sales and services.
- b. The amount is included in administrative expenses.
- c. The amount represents interest expense waived by a lender of other loans for early repayment of the loan by the Group during the period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

### (a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees		
Executives	-	306
Non-executives (excluding independent non-executives)	-	276
Independent non-executives	<u>340</u>	<u>390</u>
	<u>340</u>	<u>972</u>
Other emoluments		
Salaries and other benefits	4,995	3,860
Bonuses	1,706	1,497
Contributions to retirement benefit schemes	<u>12</u>	<u>49</u>
	<u>6,713</u>	<u>5,406</u>
Total emoluments	<u><u>7,053</u></u>	<u><u>6,378</u></u>

The emoluments of the directors were within the following bands:

Emoluments band	Number of directors	
	2003	2002
Nil – HK\$1,000,000	9	9
HK\$1,000,001 – HK\$1,500,000	1	3
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>1</u>
	<u>11</u>	<u>13</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

### (b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	2,434	2,517
Contributions to retirement benefits scheme	20	24
	<u>2,454</u>	<u>2,541</u>

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals	
	2003	2002
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

## 8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expenses on:		
- bank loans and overdrafts wholly repayable within five years	52,242	58,692
- bank loans not wholly repayable within five years	9,167	10,623
- finance lease charges	282	283
- other loans wholly repayable within five years	2,954	9,980
	<u>64,645</u>	<u>79,578</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 9. TAXATION

	2003 HK\$'000	2002 HK\$'000
Current tax:		
Hong Kong Profits Tax	2,793	14,203
Overseas income tax	4,073	1,565
	<u>6,866</u>	<u>15,768</u>
Overprovision in previous years:		
Hong Kong Profits Tax	<u>(2,288)</u>	<u>(3,932)</u>
Deferred tax (note 27):		
Current year	(740)	735
Attributable to a change in tax rate	1,594	-
	<u>854</u>	<u>735</u>
Taxation attributable to the Company and its subsidiaries	<u>5,432</u>	<u>12,571</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit (loss) before taxation per income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	<u>32,144</u>	<u>(291,272)</u>
Tax at Hong Kong Profits Tax of 17.5% (2002: 16%)	5,625	(46,604)
Tax effect of expenses not deductible for tax purposes	14,655	56,053
Tax effect of income not taxable for tax purpose	(7,860)	(11,081)
Tax effect of deferred tax assets not recognised	7,567	19,930
Utilisation of tax losses previously not recognised	(12,033)	(1,167)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(814)	(162)
Tax effect of share of results of associates	(648)	997
Increase in opening deferred tax liability resulting from an increase in tax rate	1,594	-
Overprovision in prior years	(2,288)	(3,932)
Others	<u>(366)</u>	<u>(1,463)</u>
Taxation for the year	<u>5,432</u>	<u>12,571</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the year.

Overseas income tax represents the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries and the Group's associates are entitled to exemption from income tax under certain tax holidays and concessions.

## 10. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the year is based on the net profit for the year of HK\$30,196,000 (2002: net loss for the year of HK\$301,819,000) and on 2,142,420,000 shares (2002: 2,142,420,000 shares) outstanding during the year.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 11. PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land and buildings in Hong Kong HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in the PRC HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Properties under development HK\$'000	Plant and equipment HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At 1 January 2003	28,649	346,607	11,238	416,709	135,376	394,306	208,429	1,541,314
Additions	-	424	146	5,567	9,523	30,217	20,469	66,346
Reclassifications	(28,649)	28,649	-	90,433	(90,433)	-	-	-
Deemed disposal of subsidiaries	-	(22,753)	-	(25,933)	-	(13,995)	(22,603)	(85,284)
Disposals	-	(2,169)	(421)	(56,830)	(8,936)	(33,991)	(16,275)	(118,622)
At 31 December 2003	-	350,758	10,963	429,946	45,530	376,537	190,020	1,403,754
<b>DEPRECIATION AND IMPAIRMENT</b>								
At 1 January 2003	6,281	231,866	4,470	92,359	-	238,286	156,811	730,073
Charged for the year	382	3,972	428	11,071	-	22,428	13,226	51,507
Reclassifications	(6,663)	6,663	-	-	-	-	-	-
Impairment loss recognised ( <i>note c</i> )	-	2,897	-	6,561	-	1,660	1,521	12,639
Eliminated on deemed disposal of subsidiaries	-	(8,503)	-	(5,544)	-	(4,648)	(13,567)	(32,262)
Eliminated on disposals	-	(524)	(87)	(32,931)	-	(30,311)	(14,014)	(77,867)
At 31 December 2003	-	236,371	4,811	71,516	-	227,415	143,977	684,090
<b>NET BOOK VALUES</b>								
At 31 December 2003	-	114,387	6,152	358,430	45,530	149,122	46,043	719,664
At 31 December 2002	22,368	114,741	6,768	324,350	135,376	156,020	51,618	811,241

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Medium term leasehold land and buildings in Hong Kong <i>HK\$'000</i>	Medium term leasehold land and buildings in the PRC <i>HK\$'000</i>	Motor vehicles, furniture and other equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
<b>COST</b>				
At 1 January 2003	303,254	42,647	37,623	383,524
Additions	-	-	24	24
Disposals	-	(42,647)	(2,169)	(44,816)
At 31 December 2003	<u>303,254</u>	<u>-</u>	<u>35,478</u>	<u>338,732</u>
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 January 2003	216,008	30,000	26,821	272,829
Charged for the year	2,770	-	2,573	5,343
Eliminated on disposals	-	(30,000)	(2,169)	(32,169)
At 31 December 2003	<u>218,778</u>	<u>-</u>	<u>27,225</u>	<u>246,003</u>
<b>NET BOOK VALUES</b>				
At 31 December 2003	<u>84,476</u>	<u>-</u>	<u>8,253</u>	<u>92,729</u>
At 31 December 2002	<u>87,246</u>	<u>12,647</u>	<u>10,802</u>	<u>110,695</u>

Notes:

- (a) The aggregate net book values of the Group's assets held under finance leases at 31 December 2003 amounted to HK\$15,835,000 (2002: HK\$9,420,000).
- (b) The properties under development are held under a medium term lease in the PRC.
- (c) During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 12. INVESTMENT PROPERTIES

	Long term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Medium term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>			
VALUATION			
At 1 January 2003	20,230	188,175	208,405
Eliminated on disposals	(4,450)	(10,320)	(14,770)
Surplus on revaluation	1,300	4,610	5,910
	<u>17,080</u>	<u>182,465</u>	<u>199,545</u>
At 31 December 2003	<u>17,080</u>	<u>182,465</u>	<u>199,545</u>

The Group's investment properties have been revalued at 31 December 2003 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis.

## 13. DEVELOPMENT COSTS

	<i>HK\$'000</i>
<b>THE GROUP</b>	
COST	
At 1 January 2003	25,935
Additions	2,603
Deemed disposal of subsidiaries	(14,951)
Write off	(13,587)
<b>At 31 December 2003</b>	<u>-</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	18,384
Amortised for the year	1,396
Eliminated on deemed disposal of subsidiaries	(6,193)
Eliminated on written off	(13,587)
<b>At 31 December 2003</b>	<u>-</u>
NET BOOK VALUES	
At 31 December 2003	<u>-</u>
<b>At 31 December 2002</b>	<u>7,551</u>

Development costs are amortised on a straight line basis over three to five years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 14. TECHNOLOGY LICENCE RIGHT

HK\$'000

### THE GROUP

#### COST

At 1 January 2003	35,100
Deemed disposal of subsidiaries	(35,100)

#### At 31 December 2003

–

#### AMORTISATION

At 1 January 2003	1,170
Amortisation for the year	377
Eliminated on deemed disposal of subsidiaries	(1,547)

#### At 31 December 2003

–

#### NET BOOK VALUES

#### At 31 December 2003

–

At 31 December 2002

33,930

Technology licence right is amortised on a straight line basis over three to five years.

## 15. INTERESTS IN SUBSIDIARIES

### THE COMPANY

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	528,626	529,026
Amounts due from subsidiaries	1,296,085	1,296,047
	1,824,711	1,825,073
Impairment loss recognised	(1,288,102)	(1,288,502)
	536,609	536,571

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 15. INTERESTS IN SUBSIDIARIES *(Continued)*

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

Particulars of the principal subsidiaries of the Company at 31 December 2003 are set out in note 38.

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

## 16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	-	-	<b>28,769</b>	29,550
Share of net assets	<b>121,814</b>	8,682	-	-
Amounts due from associates	-	82,837	-	-
	<b>121,814</b>	91,519	<b>28,769</b>	29,550
Impairment loss recognised	-	-	<b>(6,548)</b>	(6,548)
	<b>121,814</b>	91,519	<b>22,221</b>	23,002
Market value of listed shares	<b>148,251</b>	-	-	-

The amounts due from associate were unsecured, non-interest bearing and had no fixed repayment terms.

Particulars of the principal associates of the Group at 31 December 2003 are set out in note 39.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 16. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the audited financial statements of CASIL Telecommunications Holdings Limited and its subsidiaries (being significant associates of the Group):

	2003 HK\$'000	2002 HK\$'000
<b>Results for the year</b>		
Turnover	<u>143,872</u>	-
Net profit for the year	<u>2,217</u>	-
Net profit for the year attributable to the Group	<u>6,712</u>	-
<b>Financial position</b>		
Non-current assets	135,587	-
Current assets	181,445	-
Current liabilities	(114,226)	-
Non-current liabilities	(59,712)	-
Minority interests	(7,969)	-
Net assets	<u>135,125</u>	-
Net assets attributable to the Group	<u>66,184</u>	-

## 17. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Investment securities:				
- listed in Hong Kong	241,300	241,300	-	-
- unlisted	568,944	568,944	-	-
	<u>810,244</u>	810,244	-	-
Impairment loss recognised for investment securities				
- listed in Hong Kong	161,890	161,890	-	-
- unlisted	421,325	421,325	-	-
	<u>583,215</u>	583,215	-	-
	<u>227,029</u>	227,029	-	-
Market value of listed investments	<u>74,100</u>	44,928	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 18. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	48,442	48,155
Work-in-progress	29,423	31,018
Finished goods	31,345	79,365
Properties for sale	7,204	52,946
	<u>116,414</u>	<u>211,484</u>

Included above are raw materials of HK\$8,335,000 (2002: HK\$16,908,000), work-in-progress of HK\$12,020,000 (2002: HK\$18,551,000), finished goods of HK\$1,920,000 (2002: HK\$4,386,000) and properties for sale of HK\$7,204,000 (2002: HK\$6,486,000) carried at net realisable values.

## 19. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	176,487	163,147	-	-
Other receivables, deposits and prepayments	157,038	78,311	34,579	11,582
	<u>333,525</u>	<u>241,458</u>	<u>34,579</u>	<u>11,582</u>

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within 90 days	157,694	143,243
Between 91 - 180 days	10,470	10,614
Between 181 - 365 days	5,182	6,025
Between 1 to 2 years	3,141	3,265
	<u>176,487</u>	<u>163,147</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 20. LOANS RECEIVABLE

The major shareholder, China Aerospace Science & Technology Corporation, has undertaken to recover all loans receivable of the Group.

## 21. PLEDGED BANK DEPOSITS

The amount of the Group represents bank deposits pledged for the Group's bank loans.

## 22. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables	<b>182,978</b>	182,375	-	-
Other payables and accruals	<b>457,347</b>	421,408	<b>117,960</b>	157,165
	<b>640,325</b>	603,783	<b>117,960</b>	157,165

The following is an aged analysis of trade payables at 31 December:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	<b>146,715</b>	129,711
Between 91 – 180 days	<b>5,601</b>	6,200
Between 181 – 365 days	<b>1,845</b>	3,413
Between 1 to 2 years	<b>6,847</b>	36,045
Over 2 years	<b>21,970</b>	7,006
	<b>182,978</b>	182,375



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>THE GROUP</b>				
Amounts payable under finance leases:				
Within one year	<b>5,416</b>	3,354	<b>5,114</b>	3,137
In the second to the fifth year inclusive	<b>3,280</b>	1,735	<b>3,196</b>	1,684
	<b>8,696</b>	5,089	<b>8,310</b>	4,821
Less: Future finance charges	<b>(386)</b>	(268)	<b>N/A</b>	N/A
Present value of lease obligations	<b>8,310</b>	4,821	<b>8,310</b>	4,821
Less: Amount due within one year			<b>(5,114)</b>	(3,137)
Amount due after one year			<b>3,196</b>	1,684

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 2 years. For the year ended 31 December 2003, the average effective borrowing rate was 4.09%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payment.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 24. BANK LOANS AND OVERDRAFTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts and short term bank loans				
- secured	38,208	100,602	-	49,830
- unsecured	103,908	142,916	-	659
	<u>142,116</u>	<u>243,518</u>	<u>-</u>	<u>50,489</u>
Current portion of long term bank loans (note 26)	462,544	449,751	302,122	289,806
	<u>604,660</u>	<u>693,269</u>	<u>302,122</u>	<u>340,295</u>

## 25. OTHER LOANS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other loans are repayable:				
- within one year	116,449	-	-	-
- in the second to the fifth year inclusive	-	202,435	-	39,746
	<u>116,449</u>	<u>202,435</u>	<u>-</u>	<u>39,746</u>
Less: Amount due within one year shown under current liabilities	(116,449)	-	-	-
Amount due after one year	<u>-</u>	<u>202,435</u>	<u>-</u>	<u>39,746</u>
Other loans comprise:				
Loans from third parties (note a)	7,321	93,307	-	39,746
Guaranteed exchangeable fixed/floating rate notes (note b)	62,400	62,400	-	-
Guaranteed floating rate notes (note c)	46,728	46,728	-	-
	<u>116,449</u>	<u>202,435</u>	<u>-</u>	<u>39,746</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. OTHER LOANS (Continued)

Notes:

- (a) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing (2002: bore interest at 4.25% or prime rate per annum) and are repayable on demand (2002: repayable from 2004 to 2005).
- (b) In 2001, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and was fully repaid in March 2004. The notes are interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rate (for six-month US dollar deposits) thereafter. At 31 December 2003, unlisted investment securities with a carrying value of HK\$76,662,000 (2002: HK\$76,662,000) are pledged for the notes.
- (c) In 2001, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and will mature in September 2004. The notes are interest bearing at 1.5% above London interbank offered rate. At 31 December 2003, listed investment securities with a carrying value of HK\$50,742,000 (2002: HK\$50,742,000) are pledged for the notes.

## 26. SECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable:				
- within one year or on demand	462,544	449,751	302,122	289,806
- in the second year	105,076	35,066	96,954	21,738
- in the third to fifth year inclusive	71,554	162,050	61,828	143,498
- after five years	35,690	54,948	35,689	48,915
	<u>674,864</u>	<u>701,815</u>	<u>496,593</u>	<u>503,957</u>
Less: Amount due within one year shown under current liabilities (note 24)	<u>(462,544)</u>	<u>(449,751)</u>	<u>(302,122)</u>	<u>(289,806)</u>
Amount due after one year	<u>212,320</u>	<u>252,064</u>	<u>194,471</u>	<u>214,151</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 26. SECURED BANK LOANS (Continued)

The Group's investment properties, property, plant and equipment, bank deposits and listed investment securities with aggregate net book value of HK\$199,545,000 (2002: HK\$182,006,000), HK\$84,476,000 (2002: HK\$115,774,000), HK\$67,407,000 (2002: HK\$78,573,000) and HK\$28,589,000 (2002: HK\$28,589,000), respectively, were pledged to banks. In addition, the Company's interest in a listed associate with a market value of HK\$148,251,000 (2002: HK\$95,689,000) and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

## 27. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Technology licence right <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
At 1 January 2002, as previously reported	-	-	-	-	-	-
Adjustment on adoption of SSAP 12 (Revised)	20,908	185	5,428	(7,035)	(2,597)	16,889
At 1 January 2002, as restated	20,908	185	5,428	(7,035)	(2,597)	16,889
(Credit) charge for the year	(113)	72	-	801	(25)	735
At 31 December 2002	20,795	257	5,428	(6,234)	(2,622)	17,624
Change in tax rate (note 9)	1,815	-	-	-	(221)	1,594
Credited to income for the year	(740)	-	-	-	-	(740)
Deemed disposal of subsidiaries	(1,008)	(257)	(5,428)	6,234	-	(459)
<b>At 31 December 2003</b>	<b>20,862</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,843)</b>	<b>18,019</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 27. DEFERRED TAXATION (Continued)

	<b>Accelerated depreciation allowance</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE COMPANY</b>			
At 1 January 2002, as previously reported	-	-	-
Adjustment on adoption of SSAP 12 (Revised)	6,421	(6,421)	-
At 1 January 2002, as restated	6,421	(6,421)	-
Charge for the year	475	(475)	-
At 31 December 2002	6,896	(6,896)	-
Change in tax rate	646	(646)	-
Charge for the year	718	(718)	-
<b>At 31 December 2003</b>	<b>8,260</b>	<b>(8,260)</b>	<b>-</b>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with SSAP 12 (Revised) requirements.

At 31 December 2003, the Group has unused tax losses of approximately HK\$187 million (2002: HK\$227 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 28. SHARE CAPITAL

### (a) Share capital

	2003 & 2002	
	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$1 each:		
Authorised:		
At 1 January and 31 December	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
At 1 January and 31 December	<u>2,142,420</u>	<u>2,142,420</u>

### (b) Share option scheme

Under the terms of the share option scheme which became effective on 8 July 1997, the board of directors of the Company may offer to any full time employee of the Company, or any of its subsidiaries, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The purpose of the scheme is to recognise the contribution of employees of the Group. Consideration of HK\$1 is payable on each grant. The exercise price of the option will not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediate preceding the date of the grant of the options. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time.

No option under the scheme was granted, exercised or outstanding during the two years ended 31 December 2003.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 29. RESERVES

	Share premium HK\$'000	Special capital reserve (note a) HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>					
At 1 January 2002	939,048	84,656	1,080	(2,000,479)	(975,695)
Net loss for the year	-	-	-	(337,245)	(337,245)
At 31 December 2002	939,048	84,656	1,080	(2,337,724)	(1,312,940)
Net loss for the year	-	-	-	(63,969)	(63,969)
<b>At 31 December 2003</b>	<b>939,048</b>	<b>84,656</b>	<b>1,080</b>	<b>(2,401,693)</b>	<b>(1,376,909)</b>

Notes:

- (a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve of the Group is part of the shareholders' funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The Company had no reserve available for distribution as at 31 December 2003 (2002: nil).
- (d) The general reserve, translation reserve and accumulated losses of the Group include the Group's share of the reserves of its associates amounting to HK\$8,775,000 (2002: HK\$8,775,000), nil (2002: HK\$2,940,000) and HK\$61,650,000 (2002: HK\$75,362,000), respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 30. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	53,022	8,992
Goodwill	4,009	-
Development costs	8,758	3
Technology licence right	33,553	-
Interests in associates	32,800	-
Amounts due from associates	26,229	-
Inventories	23,752	75,561
Trade and other receivables	52,100	4,229
Bank balances and cash	25,722	30,581
Trade and other payables	(47,111)	(46,984)
Obligations under finance leases	(21)	-
Bank loans	(52,077)	(33,018)
Other loans	(50,135)	-
Taxation payable	(1,012)	-
Deferred taxation	(459)	-
Minority interests	(42,920)	(2,523)
	<u>66,210</u>	<u>36,841</u>
Realisation of reserves	21,593	(986)
(Loss) gain on deemed disposal/disposal	(28,331)	7,840
	<u>59,472</u>	<u>43,695</u>
Represented/satisfied by:		
Interests in associates	59,472	-
Bank balances and cash	-	43,695
	<u>59,472</u>	<u>43,695</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 30. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES *(Continued)*

Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the deemed disposal/disposal of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	-	43,695
Bank balances and cash disposed of	<u>(25,722)</u>	<u>(30,581)</u>
	<u>(25,722)</u>	<u>13,114</u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

## 31. MAJOR NON-CASH TRANSACTIONS

Except as disclosed in note 30, the Group has the following major non-cash transactions:

- (a) During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$8,322,000 (2002: HK\$2,179,000).
- (b) During the year, properties for sale of HK\$46,460,000 (2002: HK\$116,151,000) were disposed of at a consideration of HK\$48,920,000 (2002: HK\$118,030,000) to a lender of other loans. The consideration was applied to set off against other loan and interest payables of HK\$39,746,000 and HK\$9,174,000, respectively, due to the lender.
- (c) During the year ended 31 December 2002, the Company's major shareholder received settlement of loans receivable of HK\$134,000,000 on behalf of the Group and the amount was applied to set off against the amount due to the major shareholder.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given for banking and finance facilities granted to:				
- subsidiaries	-	-	707,160	707,160
- third parties	4,450	4,450	4,450	4,450
Guarantees given for fixed floating rate notes issued by subsidiaries	-	-	109,032	109,032
	<u>4,450</u>	<u>4,450</u>	<u>820,642</u>	<u>820,642</u>

## 33. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
- capital contribution to investee companies	2,829	2,939	-	110
- purchase of property, plant and equipment	6,908	5,139	-	-
- properties under development	-	5,672	-	3,730
	<u>9,737</u>	<u>13,750</u>	<u>-</u>	<u>3,840</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 34. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,744</b>	4,198
In the second to fifth year inclusive	<b>660</b>	1,647
	<b><u>4,404</u></b>	<u>5,845</u>

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of one to two years.

At 31 December 2003, the Company had no commitments under non-cancellable operating leases (2002: nil).

### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>13,259</b>	13,850
In the second to fifth year inclusive	<b>8,359</b>	8,810
	<b><u>21,618</u></b>	<u>22,660</u>

The properties held have committed tenants for the next one to two years. The properties are expected to generate rental yields of 10% on an ongoing basis.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 35. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the income statement HK\$1,848,000 (2002: HK\$2,871,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

## 36. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	2003 HK\$'000	2002 HK\$'000
A substantial shareholder of a non wholly-owned subsidiary:		
- Sales thereto ( <i>note a</i> )	-	65
- Purchase therefrom ( <i>note a</i> )	-	49
- Subcontracting income received ( <i>note a</i> )	-	8,338
Associates of the Group:		
- Sales thereto ( <i>note a</i> )	14,720	2,463
- Purchase therefrom ( <i>note a</i> )	82,043	22,177
- Product development fee received ( <i>note b</i> )	-	7,623
- Sales of property, plant and equipment ( <i>note b</i> )	4,500	8,271

Notes:

- (a) The transaction amounts were determined on a cost plus basis.
- (b) The transactions were carried in accordance with the relevant agreement.
- (c) Amounts due from or to associates are unsecured, non-interest bearing and with no fixed repayment terms.
- (d) Amount due to a major shareholder is unsecured and non-interest bearing. The amount is repayable in December 2005.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

At 31 December 2002, the Group had an outstanding loan amounting to US\$5,500,000 (approximately HK\$42,900,000) from certain financial institutions. Those loan agreements contained a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, would maintain a minimum percentage of shareholding of 40% of the Company, the breach of which would constitute an event of default on the related loan facilities. The loan was fully repaid during the year.

## 37. POST BALANCE SHEET EVENT

Pursuant to a placing and underwriting agreement dated 3 March 2004, CASIL Telecommunications Holdings Limited, an associate of the Company, issued 100,000,000 shares of HK\$0.10 each at a placing price of HK\$0.41 per share. The Company's interest in this associate decreased from approximately 49% to 44% after this placement.

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company	held by subsidiaries	attributable to the Group	
		%	%	%	
<i>Incorporated and operating in Hong Kong:</i>					
CASIL Clearing Limited	HK\$10,000,000	100	-	100	Provision of treasury services
CASIL Development Limited	HK\$1,000,000	-	100	100	Property development and investment
CASIL Electronic Products Limited	HK\$15,000,000	100	-	100	Distribution of electronic products
CASIL Global Development Limited	HK\$100	100	-	100	General trading

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong: (Continued)</i>					
CASIL Lands Limited	HK\$10,000	-	100	100	Property investment
China Aerospace New World Technology Limited (formerly known as "CASIL Network System Engineering Limited")	HK\$15,000,000	100	-	100	Investment holding
CASIL (Nominees) Limited	HK\$2	100	-	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK\$3,000,000	-	100	100	Distribution of optoelectronic products
CASIL Properties Limited	HK\$10,000	100	-	100	Property investment
CASIL Realty Limited	HK\$200	100	-	100	Property investment and management
CASIL Research and Development Company Limited	HK\$8,000,000	100	-	100	Research, development and trading of electronic products
CASIL Satellite Holdings Limited	HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each)	-	100	100	Investment holding
CASIL Semiconductor Limited	HK\$15,000,000	100	-	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK\$20,000,000	100	-	100	Distribution of plastic products and moulds

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong; (Continued)</i>					
Fakin Trading Company Limited	HK\$500,000	100	-	100	General trading
Far East United Electronics Limited	HK\$10,000,000	100	-	100	Property investment
Hong Yuen Electronics Limited	HK\$5,000,000	100	-	100	Manufacturing and selling of printed circuit boards
Jeckson Electric Company Limited	HK\$5,000,000	100	-	100	Manufacturing and distribution of electronic components
Jeckwell International Trading Company Limited	HK\$800,000	100	-	100	General trading
Merrycity Company Limited	HK\$380,000	-	100	100	Property investment
Sure Full Investments Limited	HK\$2	100	-	100	Property investment
Well Horn Company Limited	HK\$2	-	100	100	Property investment
Worldwide Polyfoam & Engineering Limited	HK\$3,000,000	100	-	100	General trading



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated in the British Virgin Islands and operating in Hong Kong:</i>					
Astrotech Group Limited	US\$1	100	-	100	Investment holding
Sinolike Investments Limited	US\$1	100	-	100	Investment holding
<i>Registered and operating in the PRC:</i>					
Aerospace Technology (China) Company Limited	US\$5,000,000*	100	-	100	Manufacturing of telecommunication products
CASIL Science and Technology Development (Shenzhen) Company Limited	US\$1,500,000*	100	-	100	Design and distribution of integrated circuits and intelligent automation systems
Chee Yuen Plastic Products (Huizhou) Company Limited	RMB26,761,000*	-	100	100	Manufacturing of plastic products and moulds
China Aerospace (Huizhou) Industrial Garden Limited	US\$12,000,000*	90	-	90	Property development
Conhui (Huizhou) Electronics Company Limited	RMB131,831,747*	-	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited	RMB31,229,651*	-	100	100	Manufacturing of liquid crystal displays



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated in the British Virgin Islands and operating in Hong Kong: (Continued)</i>					
Conhui (Huizhou) Worldwide Polyfoam Limited	RMB3,728,813*	-	100	100	Manufacturing of polyfoam products
Huizhou Jeckson Electric Company Limited	US\$1,000,000*	-	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited	US\$400,000*	-	90	90	Manufacturing of electronics and plastic products
Junhan Electronics (Shenzhen) Company Limited	HK\$3,000,000*	-	100	100	Manufacturing and distribution of optoelectronic products
Shenzhen Chee Yuen Plastics Company Limited	RMB22,000,000*	-	80	80	Manufacturing of plastic products
惠州市海燕賓館有限公司	RMB7,700,000*	-	51	46	Hotel operation
Casil Research and Development Centre	US\$2,000,000*	100	-	100	The research and development of system technology in satellite application and digital broadcasting, transfer & service provision of technology

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 39. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity attributable to the Group %	Principal activities
<i>Incorporated and operating in Hong Kong:</i>			
CASTEL Broadband (Hong Kong) Limited	HK\$10,000	49	Broadband business
CASTEL Broadband Limited	HK\$10,000	49	Broadband business
CASTEL Intelligent Transportation System Limited	HK\$11,600,000	34	Intelligent transportation system business
CASTEL Qihua Hi-Tech Investments Limited	HK\$8,000,000	34	Investment holding
Hung Nien Electronics Limited	HK\$30,000,000 (300,000 deferred shares of HK\$100 each) HK\$1,000 (10 ordinary shares of HK\$100 each)	49	Manufacturing and distribution of telecommunication products
<i>Incorporated in the Cayman Islands and operating in Hong Kong:</i>			
CASIL Telecommunications Holdings Limited**	HK\$91,713,976	49	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 39. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

Name of associate	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity attributable to the Group %	Principal activities
<i>Registered and operating in the PRC:</i>			
CASIL Telecommunications (Shenzhen) Company Limited	HK\$5,000,000*	49	Manufacturing and selling of telecommunications products
北京奇華通訊有限公司	RMB1,239,000*	27	Intelligent transportation system business
Jiangsu CASIL Broadcasting & Cable TV Network Company Limited	RMB64,000,000*	49	Broadcasting business
Southern Telecommunication Development Company Limited	US\$8,400,000*	21	Manufacturing and selling of telecommunication products
China Cable and CASIL Information Technology Company Limited	RMB17,000,000*	36	Research and development on digital audio systems and related research and development activities

\*\* Listed on The Stock Exchange of Hong Kong Limited

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