

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 34.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced to assess the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

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

### **Revenue recognition**

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

Service income is recognised when services are rendered.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**Property, plant and equipment**

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

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

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

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

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

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

**Assets held under finance leases**

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in subsidiaries

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

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

#### Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains or losses are included in the net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the securities are disposed of or are determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

#### Other assets

Other assets are held for long-term purpose and are stated at cost less any identified impairment loss.

#### Club debentures

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

#### Impairment

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

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

#### Inventories

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

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

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

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

### Retirement benefit costs

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 4. TURNOVER

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

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below.

*Income statement for the year ended 31st December, 2004*

	<b>Manufacturing</b>	<b>Trading</b>	<b>Technical service</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>				
External sales	91,997	67,074	4,569	163,640
<b>Result</b>				
Segment result	14,461	5,596	3,826	23,883
Other operating income				866
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement				554
Profit from operations				25,303
Finance costs				(896)
Profit before taxation				24,407
Taxation				(3,169)
Net profit for the year				21,238

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

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

#### Business segments (Continued)

Balance sheet at 31st December, 2004

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Technical service <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>				
Segment assets	158,100	42,009	1,903	202,012
Unallocated corporate assets				60,477
Consolidated total assets				262,489
<b>Liabilities</b>				
Segment liabilities	2,903	1,909	130	4,942
Unallocated corporate liabilities				21,727
Consolidated total liabilities				26,669

Other information

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Technical service <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	15,220	159	11	15,390
Depreciation and amortisation	5,696	1,397	95	7,188
Allowance for obsolete inventories	159	–	–	159

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

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

#### Business segments (Continued)

Income statement for the year ended 31st December, 2003

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

Balance sheet at 31st December, 2003

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

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

**Business segments** (Continued)*Other information*

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital expenditure	9,045	679	33	9,757
Depreciation and amortisation	4,696	1,140	62	5,898
Allowance for doubtful debts	511	514	26	1,051
Allowance for obsolete inventories	452	–	–	452

**Geographical segments**

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

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

	<b>Turnover</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	<b>96,923</b>	95,269
Mainland China	<b>58,874</b>	48,939
Other Asian regions	<b>3,865</b>	7,471
North America and Europe	<b>1,490</b>	1,446
Other countries	<b>2,488</b>	1,951
	<b>163,640</b>	155,076

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

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	<b>134,904</b>	85,909	<b>371</b>	1,343
Mainland China	<b>127,585</b>	118,288	<b>15,019</b>	8,414
	<b>262,489</b>	204,197	<b>15,390</b>	9,757



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 6. OTHER OPERATING INCOME

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Other operating income comprises:		
Interest income from banks	76	73
Other interest income	67	126
Net foreign exchange gains	124	153
Dividend income from listed investments	61	–
Sundry income	538	272
	<b>866</b>	624

### 7. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Owned assets	7,003	5,850
Asset held under a finance lease	185	48
	<b>7,188</b>	5,898
Staff costs, including directors' remuneration	19,062	18,699
Auditors' remuneration	824	780
Allowance for doubtful debts	–	1,051
Allowance for obsolete inventories	159	452
Loss on disposals of property, plant and equipment	8	94
Cost of inventories recognised as expenses	<b>105,287</b>	82,833

Contributions to retirement benefits schemes of HK\$715,000 (2003: HK\$728,000) are included in staff costs.

### 8. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	869	1,225
Finance lease charges	27	8
	<b>896</b>	1,233

**9. DIRECTORS' EMOLUMENTS**

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	<b>274</b>	334
Other emoluments:		
Salaries and other benefits	<b>4,472</b>	3,658
Retirement benefits scheme contributions	<b>284</b>	264
	<b>4,756</b>	3,922
Total	<b>5,030</b>	4,256

The directors' fees disclosed above include an amount of HK\$224,000 (2003: HK\$84,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>10</b>	10
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	–
	<b>12</b>	10

No director has waived any remunerations during the year (2003: Nil).

**10. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, five (2003: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one highest paid individual in 2003 were as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	–	416
Retirement benefits scheme contributions	–	18
	–	434

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,613	5,437
Overprovision in prior year	(202)	(558)
	<b>2,411</b>	4,879
Deferred taxation (note 24)		
Current year	758	(264)
Attributable to a change in tax rate	–	49
	<b>758</b>	(215)
	<b>3,169</b>	4,664

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

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

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	24,407	35,297
Tax at Hong Kong Profits Tax rate of 17.5%	4,271	6,177
Tax effect of expenses not deductible for tax purpose	23	142
Tax effect of income not taxable for tax purpose	(111)	(12)
Tax effect of tax loss not recognised	127	–
Utilisation of tax losses previously not recognised	(5)	–
Effect of tax exemptions granted to the PRC subsidiary	(904)	(1,280)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	–	49
Overprovision in respect of prior year	(202)	(558)
Others	(30)	146
Tax charge for the year	<b>3,169</b>	4,664

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 12. DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim dividend paid at HK0.3 cent (2003: HK0.3 cent) per ordinary share	<b>2,880</b>	2,400
Proposed final dividend – Nil (2003: HK1.25 cents per ordinary share)	–	12,000
	<b>2,880</b>	14,400

The directors do not recommend payment of a final dividend for the year ended 31st December, 2004.

### 13. EARNINGS PER SHARE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share and diluted earnings per share	<b>21,238</b>	30,633

	Number of shares	
	2004 <i>'000</i>	2003 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>942,359</b>	800,000

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvements, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Yachts <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
AT COST OR VALUATION						
At 1st January, 2004	104,350	22,178	10,940	4,520	1,317	143,305
Additions	2,821	12,180	389	-	-	15,390
Disposals	-	(15)	(76)	(54)	-	(145)
Decrease in revaluation	(4,331)	-	-	-	-	(4,331)
At 31st December, 2004	102,840	34,343	11,253	4,466	1,317	154,219
Comprising:						
At cost	-	34,343	11,253	4,466	1,317	51,379
At valuation 2004	102,840	-	-	-	-	102,840
	102,840	34,343	11,253	4,466	1,317	154,219
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2004	-	10,678	8,223	3,854	1,317	24,072
Provided for the year	2,219	3,629	1,064	276	-	7,188
Eliminated on disposals	-	(8)	(77)	(49)	-	(134)
Eliminated on revaluation	(2,219)	-	-	-	-	(2,219)
At 31st December, 2004	-	14,299	9,210	4,081	1,317	28,907
NET BOOK VALUES						
At 31st December, 2004	102,840	20,044	2,043	385	-	125,312
At 31st December, 2003	104,350	11,500	2,717	666	-	119,233

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The carrying amount of leasehold land and building comprises:		
Properties held under medium-term leases:		
– in Hong Kong	14,188	13,950
– elsewhere in the PRC	88,652	90,400
	<b>102,840</b>	104,350

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31st December, 2004 on an open market existing use basis. The revaluation gave rise to a net revaluation deficit of HK\$2,112,000 of which approximately HK\$2,666,000 has been debited to the property revaluation reserve and HK\$554,000 has been credited to the income statement.

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Cost	106,411	103,590
Accumulated depreciation and amortisation	(14,382)	(12,163)
Net book values	<b>92,029</b>	91,427

Motor vehicles include an amount of HK\$385,000 (2003: HK\$570,000) in respect of asset held under a finance lease.

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	118,850	118,850
Amount due from a subsidiary	86,017	23,219
	<b>204,867</b>	142,069

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

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

Particulars of the Company's principal subsidiaries at 31st December, 2004 are set out in note 34.

### 16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Equity securities: Listed in Hong Kong, at market value	6,144	–

### 17. OTHER ASSETS

#### THE COMPANY AND THE GROUP

Other assets represent deposits with life insurance funds with attached insurances policies.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

**18. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	<b>7,941</b>	5,627
Work in progress	<b>71</b>	121
Finished goods	<b>20,165</b>	12,428
	<b>28,177</b>	18,176

Included in inventories are raw materials of HK\$148,000 (2003: HK\$188,000) carried at net realisable value.

**19. DEBTORS, DEPOSITS AND PREPAYMENTS**

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

The aged analysis of the trade debtors of HK\$44,271,000 (2003: HK\$39,254,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	<b>THE GROUP</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 30 days	<b>26,281</b>	16,382
31 to 60 days	<b>11,383</b>	13,641
61 to 90 days	<b>4,012</b>	5,460
Over 90 days	<b>2,595</b>	3,771
	<b>44,271</b>	39,254
Other debtors, deposits and prepayments	<b>8,122</b>	6,144
	<b>52,393</b>	45,398

**20. LOAN RECEIVABLE****The Group**

The loan, made to an independent third party, bears interest at prevailing market rate and is repayable in five instalments within one year.



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 21. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$4,942,000 (2003: HK\$6,257,000) which are included in the Group's creditors and accruals is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	2,600	2,214
31 to 60 days	723	1,276
61 to 90 days	812	2,192
Over 90 days	807	575
Other creditors and accruals	4,942	6,257
	3,434	3,642
	8,376	9,899

### 22. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under a finance lease:				
Within one year	183	183	165	156
More than one year, but not exceeding two years	183	182	175	165
More than two years, but not exceeding five years	60	244	60	235
	426	609	400	556
Less: Future finance charges	(26)	(53)	-	-
Present value of lease obligations	400	556	400	556
Less: Amount due within one year shown under current liabilities			(165)	(156)
Amount due after one year			235	400

**23. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank borrowings comprise:		
Bank overdrafts	–	1,210
Trust receipt loans	<b>6,574</b>	1,495
Other bank loans	<b>5,716</b>	19,527
	<b>12,290</b>	22,232
Analysed as:		
Secured	<b>4,486</b>	17,888
Unsecured	<b>7,804</b>	4,344
	<b>12,290</b>	22,232

All bank borrowings are due for repayment within one year.

**24. DEFERRED TAXATION**

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

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>				
At 1st January, 2003	661	4,320	(134)	4,847
Charge (credit) to income statement for the year	53	–	(317)	(264)
Charge to equity for the year	–	8	–	8
Effect of a change in tax rate charge (credit) to the income statement	62	–	(13)	49
At 31st December, 2003 and 1st January, 2004	776	4,328	(464)	4,640
Charge (credit) to income statement for the year	825	–	(67)	758
Credit to equity for the year	–	(720)	–	(720)
At 31st December, 2004	1,601	3,608	(531)	4,678

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 24. DEFERRED TAXATION (Continued)

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	5,209	5,104
Deferred tax assets	(531)	(464)
	<b>4,678</b>	4,640

### 25. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each		Nominal value	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Authorised:				
At beginning and end of year	10,000,000	10,000,000	100,000	100,000
Issue and fully paid:				
At beginning of year	800,000	800,000	8,000	8,000
Issue of shares by placement	160,000	–	1,600	–
Shares repurchased and cancelled	(2,000)	–	(20)	–
At end of year	<b>958,000</b>	800,000	<b>9,580</b>	8,000

The following changes in the share capital of the Company took place during the year ended 31st December, 2004:

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

## 25. SHARE CAPITAL (Continued)

- (b) In December 2004, the Company repurchased 2,000,000 its own shares through the Stock Exchange at an aggregate consideration of HK\$300,000. The highest price and the lowest price per share are HK\$0.150 and HK\$0.149 respectively.

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## 26. SHARE OPTIONS

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

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

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

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

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 27. SHARE PREMIUM AND RESERVES

	Share premium <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
At 1st January, 2003	134,480	(78)	134,402
Profit for the year	–	15,826	15,826
Dividend paid	–	(14,400)	(14,400)
At 31st December, 2003 and 1st January, 2004	134,480	1,348	135,828
Shares issued at premium	70,400	–	70,400
Share issue expense	(2,304)	–	(2,304)
Shares repurchased and cancelled	(280)	–	(280)
Profit for the year	–	14,530	14,530
Dividend paid	–	(14,880)	(14,880)
At 31st December, 2004	202,296	998	203,294

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$203,294,000 (2003: HK\$135,828,000).

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 28. DISPOSAL OF A SUBSIDIARY

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>NET ASSETS DISPOSED OF:</b>		
Debtors, deposits and prepayments	<b>6,160</b>	3,215
Bank balances and cash	<b>4</b>	9
Creditors and accruals	<b>(2,806)</b>	(120)
Taxation payable	<b>(3,358)</b>	(2,274)
	-	830
Loss on disposal	-	(30)
	-	800
<b>Satisfied by:</b>		
Cash consideration	-	800
<b>Net cash (outflow) inflow arising on disposal:</b>		
Cash consideration	-	800
Bank balances and cash disposed of	<b>(4)</b>	(9)
	<b>(4)</b>	791

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

## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 29. CONTINGENT LIABILITIES

#### THE GROUP

At 31st December, 2003 and 2004, the Group had no significant contingent liabilities.

#### THE COMPANY

At 31st December, 2004, the Company had contingent liabilities of HK\$7,804,000 (2003: HK\$10,189,000) in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

### 30. PLEDGE OF ASSETS

#### THE GROUP

At 31st December, 2004, leasehold land and buildings with an aggregate carrying value of HK\$88,652,000 (2003: HK\$104,350,000) were pledged to banks to secure banking facilities granted to the Group.

#### THE COMPANY

At 31st December, 2004, the Company had no pledged assets.

### 31. CAPITAL COMMITMENTS

#### THE GROUP

At 31st December, 2004, the Group had capital commitment of HK\$96,000 (2003: HK\$1,957,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

#### THE COMPANY

At 31st December, 2004, the Company had no significant capital commitments.

### 32. EMPLOYEE RETIREMENT BENEFITS

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

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

**33. RELATED PARTY TRANSACTIONS**

- (a) During the year, the Group acquired the entire equity interest in PME Strategic Investment Company Limited from Panical Investment Limited at its carrying value of HK\$2. Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in Panical Investment Limited.
- (b) In 2003, the Group had the following transactions with the related companies:

<b>Nature of transactions</b>	<b>Name of related company</b>	<i>Notes</i>	<i>HK\$'000</i>
Purchases of property, plant and equipment	Fook Cheong Ho Limited	(i)	600
Rental income from	GP Nano Composite Materials Limited	(ii)	49

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

*Notes:*

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



## Notes to the Financial Statements (Continued)

For the year ended 31st December, 2004

### 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2004 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital <i>(Notes a and b)</i>	Principal activities
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK\$300,000 <i>(Note c)</i> Ordinary shares HK\$10,000	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US\$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK\$19,200,000 <i>(Note c)</i> Ordinary shares HK\$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK\$60,000	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. <i>(Note d)</i>	PRC	Registered capital HK\$40,000,000	Manufacturing and trading of polishing materials

Notes:

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

## 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

None of the subsidiaries had any debt securities subsisting at 31st December, 2004 or at any time during the year.