

NOTES TO FINANCIAL STATEMENTS

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31 December 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, land use rights and investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Revenue recognition

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

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

Subsidiaries

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

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

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

Joint venture companies

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

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

A joint venture company is treated as:

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

Associates

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

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

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

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	5 – 10 years
Motor vehicles	5 – 10 years

Estimated residual values are determined as 10% of the original purchase cost of each individual underlying asset.

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

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets or other assets when completed and ready for use.

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

Land use rights

In prior years, the Group's land use rights were stated at cost less accumulated amortisation and any impairment losses. As disclosed in the prior years' annual report, when the consent to transfer of the formal land use rights title under industrial use is obtained by the Group, the Group's land use rights are now stated at valuation less accumulated amortisation and any impairment losses which, in the opinion of the directors, are more appropriate in reflecting the fair value of the assets. The financial effect arising from the remeasurement of the Group's land use rights on a valuation basis amounted to a surplus on revaluation in the amount of HK\$4,099,000 which was recognised in the asset revaluation reserve. Further details are set out in note 12 to the financial statements.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Inventories

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of assets**

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

Income tax

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

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

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

Income tax (*continued*)

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Research and development costs**

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

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

Cash and cash equivalents

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

Foreign currencies (*continued*)

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

Retirement benefits scheme

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

The Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

2. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

The directors consider Landmark Worldwide Holdings Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company at the balance sheet date.

The Group had the following transactions with related parties in addition to those disclosed elsewhere in the financial statements:

- (i) During the year and as at the balance sheet date, the Group made an advance to an associate, further details of which are set out in note 15 to the financial statements.
- (ii) During the year, the Group paid rental expenses of approximately HK\$307,000 (2003: HK\$307,000) to a minority shareholder of a subsidiary of the Company. The rental expenses were determined by the directors of the Group and the minority shareholder with reference to the then prevailing market conditions.

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2. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS (continued)

- (iii) During the year, the Group sold finished goods of approximately HK\$271,000 (2003: HK\$213,000) to 福建石獅通達電機有限公司, a company owned as to 7.5% by Mr. Wang Ya Nan, a director of the Company. The selling price was determined with reference to the published prices offered to the major customers of the Group.
- (iv) 福建石獅市蚶江水頭華聯工藝廠, a company in which Mr. Wong Ah Yeung, a director of the Company, is interested as a beneficial shareholder, has guaranteed certain banking facilities granted to the Group of HK\$5,393,000 (2003: Nil) as at 31 December 2004 (*note 24 (iii)*).

3. SEGMENT INFORMATION

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

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

- (a) the electrical fittings segment produces accessories for electrical appliance products;
- (b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances;
- (c) the communication facilities segment is a supplier of electronic components and fiber optic cable, the essential components of communication equipment; and
- (d) the corporate and others segment comprises the trading of electrical appliances, the Group's management services business and the corporate income and expense items.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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3. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:												
Sales to external customers	256,130	117,385	318,171	214,689	165,008	84,913	76,627	29,029	-	-	815,936	446,016
Intersegment sales	1,379	468	2,050	803	-	-	-	-	(3,429)	(1,271)	-	-
Total	257,509	117,853	320,221	215,492	165,008	84,913	76,627	29,029	(3,429)	(1,271)	815,936	446,016
Segment results	67,220	40,468	39,578	28,251	11,328	5,409	(6,389)	(9,359)	(1,166)	(900)	110,571	63,869
Unallocated income											4,900	3,224
Profit from operating activities											115,471	67,093
Finance costs											(9,040)	(5,648)
Share of profits and losses of associates											5,426	3,936
Profit before tax											111,857	65,381
Tax											(12,756)	(6,722)
Profit before minority interests											99,101	58,659
Minority interests											(767)	29
Net profit from ordinary activities attributable to shareholders											98,334	58,688

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3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	335,724	142,298	327,534	321,209	208,556	111,387	129,243	57,792	(181,537)	(87,039)	819,520	545,647
Interests in associates	-	-	-	-	-	-	11,592	5,953	-	-	11,592	5,953
Total assets	335,724	142,298	327,534	321,209	208,556	111,387	140,835	63,745	(181,537)	(87,039)	831,112	551,600
Segment liabilities	188,414	69,786	116,343	144,303	107,418	56,868	66,963	18,467	(181,537)	(87,039)	297,601	202,385
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	158,401	102,608
Total liabilities											456,002	304,993
Other segment information:												
Depreciation	6,034	3,646	7,766	6,568	3,462	2,769	592	534	-	-	17,854	13,517
Amortisation of land use rights	350	350	20	20	70	24	-	-	-	-	440	394
Amortisation of prepayments	-	-	591	486	-	-	-	-	-	-	591	486
Surplus on revaluation of leasehold land and buildings recognised in the profit and loss account	-	-	-	-	-	-	-	(144)	-	-	-	(144)
Deficit/(surplus) on revaluation of investment properties recognised in the profit and loss account	-	-	-	-	-	-	(250)	150	-	-	(250)	150
Surplus on revaluation of land use rights recognised directly in equity	(1,784)	-	(5)	-	(2,310)	-	-	-	-	-	(4,099)	-
Surplus on revaluation of leasehold land and buildings recognised directly in equity	-	-	-	-	-	-	(3,451)	(303)	-	-	(3,451)	(303)
Capital expenditure	35,117	21,207	27,605	21,352	9,472	4,915	1	492	-	-	72,195	47,946

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3. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Southeast Asia		Australia		Others		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:												
Sales to external customers	75,774	54,143	578,768	337,510	18,880	3,048	77,643	30,739	64,871	20,576	815,936	446,016
Segment assets	63,746	69,313	719,245	462,041	2,244	1,112	44,880	9,810	997	9,324	831,112	551,600
Other segment information:												
Capital expenditure	9	549	72,186	47,394	-	-	-	-	-	3	72,195	47,946

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	642,533	336,165
Staff costs (excluding directors' remuneration – note 6)		
Salaries and wages	62,889	37,736
Pension scheme contributions	149	57
Less: Amounts included in research and development costs	(2,208)	(1,635)
	60,830	36,158
Minimum lease payments under operating lease of land and buildings	960	846
Auditors' remuneration	980	900
Depreciation	17,854	13,517
Amortisation of land use rights	440	394
Research and development costs	9,032	5,469
Deficit/(surplus) on revaluation of investment properties	(250)	150
Amortisation of prepayments	591	486
Provisions for bad and doubtful debts	670	824
Provisions for obsolete inventories	1,628	–
Gain on disposal of fixed assets	–	(4)
Surplus on revaluation of leasehold land and buildings	–	(144)
Gross rental income with nil outgoings	(613)	(651)
Interest income	(15)	(39)

Cost of inventories sold includes HK\$66,787,000 (2003: HK\$42,821,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of land use rights, amortisation of prepayments, and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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6. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	270	240
	270	240
Other emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	3,721	4,200
Pension scheme contributions	159	204
	3,880	4,404
	4,150	4,644

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	1	1
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company, further details of which are included in the disclosures in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

Five highest paid employees

The five highest paid employees during the year included five (2003: five) directors, details of whose remuneration are set out above.

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7. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest expenses on bank loans, overdrafts and other loans wholly repayable within five years	9,040	5,648

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current – Hong Kong	261	38
Current – Elsewhere		
Charge for the year	12,325	6,523
Overprovision in prior years	368	160
Deferred tax (<i>note 25</i>)	(130)	–
	12,824	6,721
Share of tax attributable to an associate	(68)	1
Total tax charge for the year	12,756	6,722

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8. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Accounting profit before tax	111,857	65,381
Tax at the statutory tax rate of 15.75%	1,174	215
Tax at the statutory tax rate of 17.5%	52	(408)
Tax at the statutory tax rate of 33%	34,356	21,894
Lower applicable tax rate enjoyed by the Group	(22,150)	(14,466)
Estimated tax effect of net expenses that are not deductible in determining taxable profit	491	366
Estimated tax losses utilised from previous period	(409)	(74)
Estimated tax losses not recognised	728	394
Adjustment in respect of current tax of previous periods	368	160
Tax concession	(1,854)	(1,359)
Tax charge at the Group's effective rate	12,756	6,722

Five of the Group's subsidiaries operating in Mainland China are exempted from income tax for two years from their first profit making year and are eligible for a 50% relief from income tax for the following three years (the "tax holiday") under the Income Tax Law.

The tax holiday for three of the Mainland China subsidiaries had expired in prior years. Taxes on the assessable profits of these three subsidiaries have been calculated at the applicable rates of tax prevailing in Mainland China during the year. No provisions for income tax have been made for the remaining two Mainland China subsidiaries because one of the subsidiaries has available tax losses brought forward from prior years to offset against the assessable profits generated for the year and the other subsidiary was exempted from income tax for its second profit making year.

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9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$56,662,000 (2003: HK\$62,235,000).

10. DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim – HK0.70 cent (2003: HK0.20 cent) per ordinary share	23,096	6,040
Proposed final – HK0.30 cent (2003: HK0.40 cent) per ordinary share	9,899	12,990
	32,995	19,030

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$98,334,000 (2003: HK\$58,688,000), and the weighted average of 3,251,407,104 (2003: 3,020,000,000) ordinary shares in issue during the year.

No disclosure for diluted earnings per share for the year ended 31 December 2004 is shown as the exercise price of the Company's outstanding share options is higher than the average market price of the Company's ordinary shares during the year and thus the share options have no diluting effect.

Diluted earnings per share had not been shown for the year ended 31 December 2003 as there were no potential dilutive ordinary shares in existence during that year.

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12. LAND USE RIGHTS

Group	HK\$'000
Cost or valuation:	
At beginning of year	21,661
Transfer from prepayments (<i>note 16</i>)	2,389
Surplus on revaluation	970
At 31 December 2004	25,020
Accumulated amortisation:	
At beginning of year	2,689
Provided for the year	440
Reversal upon revaluation	(3,129)
At 31 December 2004	–
Net book value:	
At 31 December 2004	25,020
At 31 December 2003	18,972

The Group's land use rights are held under medium term leases.

In respect of the Group's land use rights in Shishi City, Fujian, in Mainland China, the Group had obtained notices from the relevant Mainland China authority (the "Notices") to consent the transfer of the formal land use rights title under industrial use ("Land Titles") during the year. The Group had fully settled the charges required under the Notices. Accordingly, the directors consider that the Group has obtained the relevant titles in respect of the land use rights and any uncertainties relating to the titles are removed. In accordance with the disclosures in the prior years' annual reports, when the consent for the transfer of Land Titles from the relevant Mainland China authority is obtained the results of the revaluation for the Mainland China land use rights will be reflected.

At 31 December 2004, the Group's land use rights were revalued at an open market value basis of HK\$25,020,000 by Norton Appraisals Limited ("NA"), an independent firm of professionally qualified valuers. A revaluation surplus of HK\$4,099,000 arising therefrom has been credited to the asset revaluation reserve.

Had all of the Group's land use rights been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$20,921,000.

The Group's land use rights with net book value of HK\$4,500,000 have been pledged as security against banking facilities granted to the Group (*note 24*).

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13. FIXED ASSETS

Group

	Investment properties HK\$'000	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	1,550	14,000	36,088	7,382	128,427	4,966	7,615	11,537	211,565
Additions	-	-	466	-	50,149	3,398	4,222	13,960	72,195
Transfer to leasehold buildings	-	-	17,370	-	-	-	-	(17,370)	-
Transfer to plant and machinery	-	-	-	-	398	(71)	-	(327)	-
Transfer to prepayments (note 16)	-	-	-	-	-	-	-	(1,190)	(1,190)
Surplus on revaluation	250	3,200	-	-	-	-	-	-	3,450
At 31 December 2004	1,800	17,200	53,924	7,382	178,974	8,293	11,837	6,610	286,020
Accumulated depreciation:									
At beginning of year	-	-	8,665	1,786	28,232	1,937	3,636	-	44,256
Provided for the year	-	251	2,279	451	12,890	882	1,101	-	17,854
Reversal upon revaluation	-	(251)	-	-	-	-	-	-	(251)
At 31 December 2004	-	-	10,944	2,237	41,122	2,819	4,737	-	61,859
Net book value:									
At 31 December 2004	1,800	17,200	42,980	5,145	137,852	5,474	7,100	6,610	224,161
At 31 December 2003	1,550	14,000	27,423	5,596	100,195	3,029	3,979	11,537	167,309

An analysis of the cost or valuation of the fixed assets of the Group is as follows:

Group

	Investment properties HK\$'000	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At cost	-	-	53,924	7,382	178,974	8,293	11,837	6,610	267,020
At 31 December 2004 valuation	1,800	17,200	-	-	-	-	-	-	19,000
At 31 December 2004	1,800	17,200	53,924	7,382	178,974	8,293	11,837	6,610	286,020

NOTES TO FINANCIAL STATEMENTS

31 December 2004

13. FIXED ASSETS (continued)

The Group's leasehold land and buildings situated in Hong Kong were revalued at the balance sheet date by NA, at an open market value basis of HK\$17,200,000. Revaluation surpluses of HK\$3,451,000, resulting from the above valuations, have been credited to the asset revaluation reserve.

At 31 December 2004, the Group's investment properties situated in Hong Kong were revalued at an open market value basis by NA, at HK\$1,800,000. A revaluation surplus of HK\$250,000 arising therefrom has been credited to the consolidated profit and loss account (note 5). The investment properties are leased to independent third parties under operating leases, further details of which are included in note 30 to the financial statements.

The Group's leasehold land and buildings situated in Hong Kong at valuation of HK\$17,200,000 are held under long term leases. The Group's leasehold buildings situated in Mainland China and investment properties situated in Hong Kong are held under medium term leases.

Had all of the Group's leasehold land and buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$13,448,000 (2003: HK\$13,697,000).

The Group's leasehold land and buildings with a net book value of HK\$17,200,000 and investment properties in Hong Kong have been pledged as security against banking facilities granted to the Group (note 24).

As at 31 December 2004, the Group has not yet obtained the buildings ownership certificates for certain of its buildings situated in Shishi City, Fujian, in Mainland China with net book value of approximately HK\$18,800,000. The Group's Mainland China lawyer and the Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings are located, there is no legal barrier or otherwise for the Group to obtain the relevant buildings ownership certificates for the buildings from the relevant Mainland China authority. In accordance with the disclosures in the prior years' annual report, when all the relevant buildings ownership certificates are obtained, the results of the revaluation for the leasehold buildings in Mainland China will be reflected.

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14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	79,379	79,379

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US\$10,000	100	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK\$880,000	100	100	Investment holding and raw material sourcing
Ever Target Limited	Hong Kong	Ordinary HK\$4	100	100	Investment holding and raw material sourcing

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Indirectly held (continued)					
Tongda Group International Limited	Hong Kong	Ordinary HK\$2	100	100	Investment holding
Tongda Optical Fiber Technology Limited	Hong Kong	Ordinary HK\$100,000	86.67	86.67	Investment holding
Tongda Electrics Company Limited, Shishi (Note 1)	People's Republic of China ("PRC")	Registered Renminbi ("RMB") 12,652,912	100	100	Manufacture and sale of accessories for electrical appliance products
Tong Da Metals Company Limited, Shishi City, Fujian (Note 2)	PRC	Registered RMB8,023,560	100	100	Manufacture and sale of ironware products
Tongda Electronic Company Limited, Shishi City (Note 3)	PRC	Registered RMB10,000,000	100	100	Manufacture and sale of resistors and other electronic products
Xiamen Optic Conduct Cable Company Limited (Note 4)	PRC	Registered RMB55,658,309	65	65	Manufacture and sale of fiber optic cable

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Indirectly held (continued)					
Tongda Ironware (Shenzhen) Company Limited (Note 5)	PRC	Registered HK\$26,002,255	100	100	Manufacture and sale of ironware products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK\$10,000	100	100	Investment holding
Tongda Overseas Company Limited	BVI/PRC	Ordinary US\$1	100	100	Provision of administrative and management services
Taxdeal Properties Limited	BVI/PRC	Ordinary US\$1	100	100	Dormant
Tabcombe Consultants Limited	BVI/PRC	Ordinary US\$1	100	100	Dormant
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	100	100	Trading of electrical appliance products

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Indirectly held (continued)					
Wisdom Mark Industries Limited	BVI/PRC	Ordinary US\$1	100	100	Provision of quality control and technical support services
Best Buy Limited	BVI/PRC	Ordinary US\$1	100	100	Provision of marketing services
South Win Limited	Hong Kong	Ordinary HK\$1,000	100	100	Dormant
Tongda Smart Technology Company Limited	Hong Kong	Ordinary HK\$300,000	90	90	Trading of smart cards

Notes:

1. Tongda Electrics Company Limited, Shishi is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 12 February 1993.
2. Tong Da Metals Company Limited, Shishi City, Fujian is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 29 October 1992.
3. Tongda Electronic Company Limited, Shishi City is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 20 December 1998.
4. Xiamen Optic Conduct Cable Company Limited is an equity joint venture established by the Group and a joint venture partner in PRC for a period of 15 years commencing from 10 November 1993.
5. Tongda Ironware (Shenzhen) Company Limited is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 11 April 2002.

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15. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	7,125	3,631
Due from associates	4,467	2,322
	11,592	5,953

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Meijitsu Tongda (HK) Company Limited	Incorporated	Hong Kong/ Mainland China	50	Manufacture and sale of silk-screen printing products
Tongda Fuso Printing (Shanghai) Company Limited	Incorporated	PRC/Mainland China	30	Manufacture and sale of silk-screen printing products
Tongda Fuso (HK) Company Limited	Incorporated	Hong Kong	30	Investment holding

The balance with an associate is unsecured, interest-free and has no fixed terms of repayment.

The directors of the Company do not intend to demand settlement of the amounts due until the associates have funds available surplus to those necessary to provide adequate working capital for financing its operations. Accordingly, the amounts are classified as a long term receivable.

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16. PREPAYMENTS

Group

	Prepaid rental <i>HK\$'000</i>	Prepaid premises cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
Costs:			
At beginning of year	3,510	25,875	29,385
Additions	561	7,463	8,024
Transfer to land use rights (<i>note 12</i>)	(2,389)	–	(2,389)
Transfer from construction in progress (<i>note 13</i>)	–	1,190	1,190
At 31 December 2004	1,682	34,528	36,210
Amortisation:			
At beginning of year	35	464	499
Amortised during the year	34	557	591
At 31 December 2004	69	1,021	1,090
Net book value:			
At 31 December 2004	1,613	33,507	35,120
At 31 December 2003	3,475	25,411	28,886

The prepaid rental represents rental of a piece of land located in Mainland China. The Group has been granted the right to use the land for a period of 50 years. The prepaid premises cost represents cost for construction of certain premises erected on one piece of the land (the "Land"). The Group has been granted the right to use these premises within the rental period of the Land. As confirmed by legal opinions issued by the Group's Mainland China lawyers, the lessor of the Land has the right to lease the Land and the leasing agreement entered into by the Group with the lessor is legally enforceable under the laws of Mainland China.

The prepaid rental is amortised on a straight-line basis over the lease term of 50 years. The prepaid premises cost is amortised on a straight-line basis over the remaining lease term of the land.

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17. LONG TERM DEPOSITS

Long term deposits represent deposits paid for the acquisition of certain fixed assets.

18. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	68,189	42,179
Work in progress	11,419	5,393
Finished goods	12,506	11,827
	92,114	59,399

19. TRADE AND BILLS RECEIVABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
Trade receivables	328,417	196,706
Bills receivable	3,206	3,763
	331,623	200,469

An aged analysis of the Group's trade and bills receivables as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 3 months	255,727	160,957
4 to 6 months, inclusive	54,458	29,263
7 to 9 months, inclusive	15,619	8,349
10 to 12 months, inclusive	7,134	2,809
More than 1 year	6,855	2,618
	339,793	203,996
Provisions for bad and doubtful debts	(4,197)	(3,527)
	335,596	200,469

It is the general policy of the Group to allow a credit period of three to six months, except for the sale of fiber optic cable products on which a longer credit period of three to eighteen months was allowed. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship.

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20. CASH AND CASH EQUIVALENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	84,416	38,968
Time deposits	–	10,000
	84,416	48,968

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK\$33,139,000 (2003: HK\$21,017,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE AND BILLS PAYABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
Trade payables	127,743	63,747
Bills payables	71,845	57,237
	199,588	120,984

An aged analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 3 months	158,479	101,766
4 to 6 months, inclusive	27,846	13,840
7 to 9 months, inclusive	8,241	4,129
10 to 12 months, inclusive	2,433	417
More than 1 year	2,589	832
	199,588	120,984

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22. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

23. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans:		
Secured	7,303	8,682
Unsecured	138,317	93,926
	145,620	102,608
Bank loans, repayable:		
Within one year	139,717	95,305
In the second year	1,399	1,400
In the third to fifth years, inclusive	2,541	3,071
Beyond five years	1,963	2,832
	145,620	102,608
Portion classified as current liabilities	(139,717)	(95,305)
Non-current portion	5,903	7,303

24. BANKING FACILITIES

As at 31 December 2004, the Group's banking facilities were supported by:

- (i) legal charges over land use rights, leasehold land and buildings and investment properties situated in Hong Kong and Mainland China owned by the Group (*notes 12 and 13*);
- (ii) the pledge of bank deposits of approximately HK\$3,325,000 (2003: HK\$7,896,000); and
- (iii) corporate guarantees from the Company, certain of its subsidiaries, an associate and a related company.

NOTES TO FINANCIAL STATEMENTS

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25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities**Group**

**Revaluation of
properties and
land use rights**
HK\$'000

At 1 January 2003 and 31 December 2003	–
Deferred tax debited to equity during the year	1,764
Gross deferred tax liabilities at 31 December 2004	1,764

Deferred tax assets**Group**

**Accelerated
tax
depreciation**
HK\$'000

At 1 January 2003 and 31 December 2003	–
Deferred tax credited to the profit and loss account during the year (<i>note 8</i>)	130
Gross deferred tax assets at 31 December 2004	130
Net deferred tax liabilities at 31 December 2004	1,634

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates as the Group has no liability to additional tax should such amounts be remitted.

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

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31 December 2004

26. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
3,299,500,000 (2003: 3,020,000,000) ordinary shares of HK\$0.01 each	32,995	30,200

A summary of the movements in the Company's issued ordinary share capital is as follows:

	<i>Notes</i>	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2004		3,020,000,000	30,200	32,641	62,841
Issue of new shares	(a)	227,500,000	2,275	42,035	44,310
Exercise of share options	(b)	52,000,000	520	12,532	13,052
At 31 December 2004		3,299,500,000	32,995	87,208	120,203

Notes:

- (a) On 21 January 2004, 227,500,000 new shares were allotted and issued to Landmark Worldwide Holdings Limited ("Landmark"), a substantial shareholder of the Company at an issue price of HK\$0.20 per share. Pursuant to a subscription agreement dated 9 January 2004, this shares allotment was following a placement of 227,500,000 shares of HK\$0.01 each in the Company by Landmark at the same price to independent third parties. This placement raised net cash proceeds of approximately HK\$44.3 million for the Company for acquisition of machinery and equipment and for general working capital purposes.
- (b) During the year ended 31 December 2004, 52,000,000 ordinary shares of HK\$0.01 each were issued upon the exercise of share options granted to certain directors at an exercise price of HK\$0.251 per share for a total cash consideration of approximately HK\$13,052,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

26. SHARE CAPITAL (continued)

Share option scheme

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2003 and 2004, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 10% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the official, closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK\$5 million, are subject to shareholders' approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK\$1.

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26. SHARE CAPITAL (continued)**Share option scheme (continued)**

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

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

The following share options were outstanding under the New Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2004				At grant date of options HK\$	At exercise date of options HK\$
Directors										
Mr. Wang Ya Nan	-	19,920,000	(19,920,000)	-	-	21 May 2004	21 May 2004 to 20 May 2014	0.251	0.248	0.250
Mr. Wang Ya Hua	-	19,920,000	(19,920,000)	-	-	21 May 2004	21 May 2004 to 20 May 2014	0.251	0.248	0.250
Mr. Wong Ah Yu	-	12,160,000	(12,160,000)	-	-	21 May 2004	21 May 2004 to 20 May 2014	0.251	0.248	0.250
	-	52,000,000	(52,000,000)	-	-					
Other employees										
In aggregate	-	250,000,000	-	(230,000,000)	20,000,000	5 February 2004	5 February 2004 to 31 December 2005	0.250	0.250	-
	-	302,000,000	(52,000,000)	(230,000,000)	20,000,000					

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

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

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

NOTES TO FINANCIAL STATEMENTS

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26. SHARE CAPITAL (continued)

Share option scheme (continued)

The 52,000,000 share options exercised during the year resulted in the issue of 52,000,000 ordinary shares of the Company and new share capital of HK\$520,000 and share premium of HK\$12,532,000 (before issue expenses).

At the balance sheet date, the Company had 20,000,000 share options outstanding under the New Scheme, which represented approximately 0.61% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 20,000,000 additional ordinary shares of the Company and additional share capital of HK\$200,000 and share premium of HK\$4,800,000 (before issue expenses).

27. RESERVES

(a) Group

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

The capital reserve of the Group represents principally the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor.

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited, a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances.

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27. RESERVES (continued)

(b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	32,641	79,179	41,647	153,467
Net profit for the year	–	–	62,235	62,235
Interim 2003 dividend – <i>note 10</i>	–	–	(6,040)	(6,040)
Proposed final 2003 dividend – <i>note 10</i>	–	–	(12,990)	(12,990)
At 31 December 2003 and 1 January 2004	32,641	79,179	84,852	196,672
Issue of shares – <i>note 26</i>	42,035	–	–	42,035
Exercise of share options – <i>note 26</i>	12,532	–	–	12,532
Net profit for the year	–	–	56,662	56,662
Interim 2004 dividend – <i>note 10</i>	–	–	(23,096)	(23,096)
Proposed final 2004 dividend – <i>note 10</i>	–	–	(9,899)	(9,899)
At 31 December 2004	87,208	79,179	108,519	274,906

- (i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (ii) As at 31 December 2004, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$274,906,000, subject to the restriction stated in note (i) above.
- (iii) The contributed surplus of the Company arose as a result of the Group reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

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28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

During the year, the increase in paid-up capital to a subsidiary attributable to a minority shareholder of HK\$2,340,000 was settled through the current account with that minority shareholder.

29. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK\$23.4 million (2003: Nil).

In addition, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK\$50.8 million (2003: HK\$16.1 million) at the balance sheet date.

Save as disclosed above, neither the Group nor the Company had any significant contingent liabilities at the balance sheet date.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	332	395
In the second to fifth years, inclusive	–	379
	<hr/> 332	<hr/> 774

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30. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee**

The Group leases certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leases certain of its offices properties under operating lease arrangements. Leases for properties are within one year.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	299	300
In the second to fifth years, inclusive	594	654
After five years	9,240	9,392
	10,133	10,346

31. COMMITMENTS

In addition to the operating lease commitments set out in note 30(b) above, the Group had the following capital commitments contracted but not provided for at the balance sheet date:

	Group	
	2004 HK\$'000	2003 HK\$'000
Purchases of fixed assets	16,393	7,809
Procurement of land use rights for Mainland China land for 50 years	–	561
Investments in subsidiaries	24,627	9,228
	41,020	17,598

The Company had no significant commitments at the balance sheet date (2003: Nil).

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32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11 April 2005, the Company entered into a bank loan agreement with six banks for a term loan facility of HK\$125,000,000 to refinance the existing indebtedness and finance the corporate funding requirement of the Group. The loan is secured by guarantees given by certain subsidiaries, bears interest at rate of 1.25% plus HIBOR per annum and is repayable by eight equal instalments commencing from June 2006.

33. COMPARATIVE AMOUNTS

During the year, the Group's land use rights are separately disclosed as, in the opinion of the directors, this presentation of the financial statements is more appropriate. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2005.