Notes to the Financial Statements

For the year ended 31 December 2002

1. General Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 January 2002 under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to the implementation of the proposal as stipulated under the restructuring agreement dated 14 January 2002 (the "Group Restructuring") entered into between Nam Tai Electronics, Inc. ("Nam Tai"), the Company, Albatronics (Far East) Company Limited ("Albatronics") and the joint and several liquidators of Albatronics (the "Proposal"), the Company became the holding company of the Group, further details of which are set out in the document dated 18 April 2002 entitled "Restructuring Proposal for Albatronics (Far East) Company Limited (in liquidation) by way of schemes of arrangement and new listing of J.I.C. Technology Company Limited by way of introduction" (the "Document").

The ordinary shares of the Company have been listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") with effect on 4 June 2002.

The Group Restructuring is accounted for using merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstruction" issued by the Hong Kong Society of Accountants (the "HKSA"). The consolidated financial statements for the year ended 31 December 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

No balance sheet of the Company as at 31 December 2001 is presented as the Company was not incorporated on that date.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 14 to the financial statements. The directors consider the Company's ultimate holding company as at 31 December 2002 to be Nam Tai, which is incorporated in the British Virgin Islands and its shares were originally listed on the Nasdaq and subsequently listed on the New York Stock Exchange on 23 January 2003.

2. Principal Accounting Policies

(a) Basis of preparation

The financial statements on pages 20 to 48 are prepared in accordance with and comply with all applicable SSAPs and Interpretations issued by the HKSA. The financial statements are prepared under the historical cost convention.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of revised and new SSAPs

In the current year, the Group has adopted, for the first time, the following revised and new SSAPs:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Adoption of these revised and new SSAPs has led to a number of changes in the Group's accounting policies. In addition, the revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. The adoption of these revised and new SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current and prior years.

(i) SSAP 1 (Revised): Presentation of financial statements

In adopting SSAP 1 (Revised) the Group is required to present a statement of changes in equity instead of a statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

(ii) SSAP 15 (Revised): Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (Revised). As a result, cash flows during the year have been classified by operating, investing and financing activities. For the year ended 31 December 2001, interest received of approximately HK$530,000 and net cash outflow from taxation of approximately HK$3,588,000 have been reclassified as investing and operating cash flows respectively, whereas interest paid of approximately HK$59,000 has been reclassified as financing cash flow. In addition, cash and cash equivalents have been reclassified to comprise cash on hand and demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank borrowings, including the trust receipt loans, are included in financing activities. Certain comparative figures have also been reclassified to conform with the current year's presentation.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) SSAP 34: Employee benefits

Employee leave entitlements

In adopting SSAP 34, employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

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Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The adoption of SSAP 34 has not had any material impact on the financial statements and no prior year adjustment is required.

(b) Basis of consolidation

The Group Restructuring as detailed in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Apart from the Group Restructuring as detailed in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary.

Goodwill arising from acquisitions prior to 1 January 2001 was written off to reserves immediately on acquisition.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(c) Goodwill *(Continued)*

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

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary.

On disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment losses.

(e) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	15%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	15%
Motor vehicles	20%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(f) Club membership

Club membership is stated at cost, as reduced by any impairment loss that is other than temporary as considered necessary by the directors.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

(i) Foreign currencies

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

All assets, liabilities, revenue and expenses of foreign subsidiaries are translated at the exchange rate ruling at the date on which the amount recorded in the financial statements was established. At the balance sheet date monetary assets and liabilities are retranslated at the rates of exchange ruling at the balance sheet date and any resulting exchange difference is taken to the income statement.

(j) Deferred tax/Future tax benefits

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(k) 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 losses are recognised as an expense immediately.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefits costs

The retirement benefits costs charged in the income statement represent the contributions payable to the Group's defined contribution scheme for the year.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies *(Continued)*

(m) Recognition of revenue

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

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

Service income is recognised when services are rendered.

(n) 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.

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(p) Research and development expenses

Expenses on research activities are recognised as expenses in the period in which they are incurred.

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

Where no internally-generated intangible asset can be recognised, development expenses are recognised as expenses in the period in which they are incurred.

3. Turnover

The Group's turnover represents the total invoiced value of goods supplied less returns and discounts.

Notes to the Financial Statements

For the year ended 31 December 2002

4. Segment Information

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 December 2002:

	Transformer		Liquid crystal displays		Total	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity:						
Revenue	**88,663**	85,653	**186,815**	194,822	**275,478**	280,475
Contribution to profit from operations	**3,802**	1,946	**8,643**	40,836	**12,445**	42,782
Finance costs					**(661)**	(59)
Profit before taxation					**11,784**	42,723
Taxation					**(489)**	(701)
Profit attributable to shareholders					**11,295**	42,022
Assets						
Segmental assets	**45,087**	35,701	**176,226**	128,078	**221,313**	163,779
Unallocated corporate assets					**707**	—
					222,020	163,779
Liabilities						
Segmental liabilities	**25,622**	14,444	**76,990**	33,858	**102,612**	48,302
Unallocated corporate liabilities					**1,577**	1,131
					104,189	49,433
Other information for the year						
Capital expenditure	**1,777**	543	**95,904**	14,692	**97,681**	15,235
Depreciation	**808**	1,231	**13,516**	7,197	**14,324**	8,428

Notes to the Financial Statements

For the year ended 31 December 2002

4. Segment Information *(Continued)*

(b) Geographical segments

The following tables provide an analysis of the Group's revenue and contribution to profit from operations by geographical market for the year ended 31 December 2002:

	Hong Kong	**The PRC, other than Hong Kong**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2002					
Revenue	**102,232**	**134,700**	**30,609**	**7,937**	**275,478**
Contribution to profit from operations	**4,948**	**5,842**	**1,313**	**342**	**12,445**
Finance costs					**(661)**
Profit before taxation					**11,784**
Taxation					**(489)**
Profit attributable to shareholders					**11,295**
2001					
Revenue	114,225	122,498	37,511	6,241	280,475
Contribution to profit from operations	7,344	33,312	1,310	816	42,782
Finance costs					(59)
Profit before taxation					42,723
Taxation					(701)
Profit attributable to shareholders					42,022

Notes to the Financial Statements

For the year ended 31 December 2002

4. Segment Information *(Continued)*

(b) Geographical segments *(Continued)*

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

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**76,242**	106,357	**57**	494
The PRC	**145,071**	57,422	**97,624**	14,741
	221,313	163,779	**97,681**	15,235

5. Profit from Operations

	2002	2001
	HK$'000	*HK$'000*
Profit from operations is arrived at after charging:		
Auditors' remuneration	**601**	315
Depreciation		
— owned assets	**14,324**	8,367
— assets held under hire purchase contracts	**—**	61
Operating lease rentals in respect of rented premises	**4,498**	5,714
Provision for bad and doubtful debts	**436**	244
Provision for inventory obsolescence	**—**	411
Loss on disposal of property, plant and equipment	**342**	480
Retirement benefits scheme contributions, net of forfeited contribution	**1,573**	1,325
Staff costs including directors' remuneration	**41,741**	41,297
and crediting:		
Bank interest income	**82**	530
Write-back of provision for inventory obsolescence	**1,723**	—
Development charges received from Nam Tai and a fellow subsidiary	**—**	12,000

Notes to the Financial Statements

For the year ended 31 December 2002

6. Finance Costs

	2002	2001
	HK$'000	*HK$'000*
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	**661**	54
Obligations under hire purchase contracts	**—**	5
	661	59

7. Directors' and Employees' Emoluments

Details of emoluments paid by the Group to the directors and the five highest paid individuals (including directors and employees) for the year are as follows:

(a) Directors' emoluments

	2002	2001
	HK$'000	*HK$'000*
Fees		
Executive directors	**—**	—
Non-executive directors	**210**	—
	210	—
Other emoluments to executive directors		
Salaries and other benefits	**2,961**	2,926
Contributions to retirement benefits schemes	**24**	24
	2,985	2,950
	3,195	2,950

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**7**	2
HK$1,000,001 – HK$1,500,000	**1**	—
HK$1,500,001 – HK$2,000,000	**1**	1

Notes to the Financial Statements

For the year ended 31 December 2002

7. Directors' and Employees' Emoluments *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2001: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2001: three) individuals were as follows:

	2002	2001
	HK$'000	*HK$'000*
Employees		
Salaries and other benefits	**2,168**	2,642
Contributions to retirement benefits schemes	**30**	—
	2,198	2,642

The emoluments of each of these individuals were within the band of nil to HK$1,000,000.

For the year ended 31 December 2002, one of the independent non-executive directors waived emoluments of HK$60,000 (and agreed to waive any future emoluments). No director waived any emoluments in the year ended 31 December 2001.

8. Taxation

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong profits tax		
— current year	**270**	700
— over provision in prior years	**(184)**	(26)
Income tax calculated at the rates prevailing in the People's Republic of China (the "PRC")		
— current year	**1,092**	27
— over provision in prior years	**(389)**	—
Deferred taxation *(note 19)*	**(300)**	—
	489	701

Hong Kong profits tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits of the year.

Notes to the Financial Statements

For the year ended 31 December 2002

9. Profit Attributable to Shareholders

Of the consolidated profit attributable to shareholders of HK$11,295,000 (2001: HK$42,022,000), a profit of HK$7,029,000 (2001: Nil) has been dealt with in the financial statements of the Company.

10. Dividends

	2002	2001
	HK$'000	*HK$'000*
Interim dividends:		
— HK$0.01 per preference share	**5,984**	—
— HK$0.01 per ordinary share	**1,826**	—
	7,810	—

11. Earnings per Share

The calculation of basic earnings per share for the year ended 31 December 2002 is based on the profit attributable to shareholders of HK$11,295,000 (2001: HK$42,022,000) less interim preference dividends of HK$5,984,000 (2001: Nil) and on 182,544,465 ordinary shares in issue as a result of the Group Restructuring as described in note 1 and as if all these shares had been in issue since 1 January 2001.

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$11,295,000 (2001: HK$42,022,000) and on 763,534,756 ordinary shares in issue and issuable, comprising 182,544,465 ordinary shares that were issued, plus 580,990,291 ordinary shares deemed to be issued upon full conversion of the 598,420,000 preference shares at the initial conversion ratio of 1.03 preference shares to 1 ordinary share.

Notes to the Financial Statements

For the year ended 31 December 2002

12. Property, Plant and Equipment

Group

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2002	9,221	47,688	5,065	2,196	64,170
Additions	7,936	88,507	1,238	—	97,681
Disposals	(345)	(9,056)	(455)	(165)	(10,021)
At 31 December 2002	**16,812**	**127,139**	**5,848**	**2,031**	**151,830**
Accumulated depreciation					
At 1 January 2002	3,213	27,835	1,891	1,353	34,292
Charge for the year	1,997	11,283	762	282	14,324
Disposals	(90)	(9,011)	(377)	(165)	(9,643)
At 31 December 2002	**5,120**	**30,107**	**2,276**	**1,470**	**38,973**
Net book value					
At 31 December 2002	**11,692**	**97,032**	**3,572**	**561**	**112,857**
At 31 December 2001	6,008	19,853	3,174	843	29,878

13. Club Membership

	Group	
	2002	2001
	HK$'000	*HK$'000*
Club membership, at cost	**381**	381

Notes to the Financial Statements

For the year ended 31 December 2002

14. Investments in Subsidiaries

	Company 2002 *HK$'000*
Unlisted investments, at cost	**119,576**

Particulars of the subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation/ operations	Nominal value of issued/paid-up capital	Percentage of issued/paid-up capital held by the Company		Principal activities
			Directly	Indirectly	
J.I.C. Group (B.V.I.) Limited	British Virgin Islands	HK$31	100%	—	Investment holding
J.I.C. Enterprises (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Investment holding and manufacture and trading of electronic components
J.I.C. Electronics Company Limited	Hong Kong	HK$10,000	—	100%	Inactive
Jetup Electronics (Shenzhen) Co., Limited	PRC	HK$53,656,687	—	100%	Manufacture of liquid crystal displays
Jieyao Electronics (Shenzhen) Co., Limited	PRC	HK$3,404,612	—	100%	Manufacture of transformers and electronic components
Jieda Electronics (Shenzhen) Company Limited	PRC	HK$4,500,500	—	100%	Inactive

In the prior year, the Company had a wholly-owned subsidiary, Jetup Development Limited which was deregistered on 26 November 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

15. Inventories

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**21,482**	10,386
Work in progress	**3,805**	1,385
Finished goods	**2,886**	3,967
	28,173	15,738

The inventories of the Group as at 31 December 2002 were carried at cost.

16. Trade and Other Receivables

As at 31 December 2002, the aged analysis of trade receivables net of provisions for doubtful debts is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Trade receivables:		
0 – 30 days	**51,594**	17,004
31 – 60 days	**7,839**	13,388
61 – 90 days	**2,998**	8,337
Over 90 days	**6**	3,200
	62,437	41,929
Other receivables	**3,692**	11,053
	66,129	52,982

The credit terms of the Group range from 30 to 90 days.

Notes to the Financial Statements

For the year ended 31 December 2002

17. Trade and other Payables

As at 31 December 2002, the aged analysis of trade payables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Trade payables:		
0 – 30 days	**42,525**	8,027
31 – 60 days	**7,790**	10,566
61 – 90 days	**3,874**	14,246
Over 90 days	**557**	2,433
	54,746	35,272
Other payables	**9,918**	7,871
	64,664	43,143

18. Bank Borrowings

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Bank loans	**30,713**	—
Trust receipt loans	**7,235**	5,106
	37,948	5,106
The bank borrowings are repayable as follows:		
— within one year and on demand	**16,010**	5,106
— more than one year, but not exceeding two years	**8,775**	—
— more than two years, but not exceeding five years	**13,163**	—
	37,948	5,106
Less: Amount due within one year included under current liabilities	**16,010**	5,106
Amount due after one year included under non-current liabilities	**21,938**	—

Notes to the Financial Statements

For the year ended 31 December 2002

19. Deferred Taxation

The movements in the deferred tax account are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Balance at 1 January 2002	**630**	630
Transfer to income statement *(note 8)*	**(300)**	—
Balance at 31 December 2002	**330**	630

At 31 December 2002, the amount of deferred tax liabilities is as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Tax effect of timing differences attributable to accelerated depreciation allowance	**330**	630

20. Share Capital

	Notes	Ordinary shares of HK$0.01 each Number of shares	Ordinary shares of HK$0.01 each HK$'000	Preference shares of HK$0.01 each Number of shares	Preference shares of HK$0.01 each HK$'000	Total HK$000
Authorised:						
On incorporation	*(a)*	100,000,000	1,000	—	—	1,000
Increase during the year	*(b)*	1,900,000,000	19,000	600,000,000	6,000	25,000
At 31 December 2002		**2,000,000,000**	**20,000**	**600,000,000**	**6,000**	**26,000**
Issued and fully paid:						
Increase during the year	*(c)*	182,544,465	1,826	598,420,000	5,984	7,810
At 31 December 2002		**182,544,465**	**1,826**	**598,420,000**	**5,984**	**7,810**

Notes:

(a) The Company was incorporated in the Cayman Islands on 8 January 2002 with an authorised share capital of HK$1,000,000 divided into 100,000,000 shares of nominal value of HK$0.01 each.

(b) Pursuant to a resolution of the Company passed on 16 April 2002, the authorised share capital of the Company was increased from HK$1,000,000 to HK$26,000,000 by the creation of 1,900,000,000 ordinary shares of HK$0.01 each (the "New Ordinary Shares") and 600,000,000 preference shares of HK$0.01 each.

Notes to the Financial Statements

For the year ended 31 December 2002

20. Share Capital *(Continued)*

(c) As part of the Group Restructuring under which the Company's ordinary shares were listed by way of introduction on the Stock Exchange, the Company has effected the following changes in its share capital:

(i) Pursuant to the implementation of the scheme of the arrangement entered into between Albatronics and its then shareholders relating to the Proposal (the "Shareholders' Scheme"), the ordinary shares of Albatronics have been transferred to the Company and the shareholders of Albatronics received 4,444,465 New Ordinary Shares of the Company, credited as fully paid-up. The ordinary shares of Albatronics were subsequently transferred to the joint and several liquidators of Albatronics for a nominal consideration of HK$1.00;

(ii) Pursuant to the implementation of the scheme of arrangement entered into between Albatronics and its admitted creditors relating to the Proposal (the "Creditors' Scheme"), the creditors of Albatronics received 44,000,000 New Ordinary Shares of the Company, credited as fully paid-up, and Nam Tai received a further 4,100,000 New Ordinary Shares of the Company, credited as fully paid-up in settlement of the costs and expenses in relation to the Group Restructuring paid by Nam Tai; and

(iii) Pursuant to the sale and purchase agreement entered into between Nam Tai and the Company in relation to the acquisition of the entire issued share capital of J.I.C. Group (B.V.I.) Limited (the "Sale and Purchase Agreement"), the Company acquired from Nam Tai the entire issued share capital of J.I.C. Group (B.V.I.) Limited in consideration for which (i) Nam Tai received 122,190,000 New Ordinary Shares, credited as fully paid-up, (ii) Nam Tai received 598,420,000 non-voting non-redeemable convertible preference shares, credited as fully paid-up, and (iii) at Nam Tai's direction, and for the purpose of Nam Tai's reimbursement of Yu Ming Investment Management Limited ("Yu Ming") for the provision of professional advisory services to Nam Tai in relation to the Proposal, the Company allotted and issued 7,810,000 New Ordinary Shares, credited as fully paid-up to Yu Ming or its nominees.

Further details in relation to the above are set out in the Document as referred to in note 1.

(d) The preference shares are not redeemable and the holders of which shall not be entitled to vote. At any time after allotment, each holder of the preference shares shall be entitled to convert all or a portion of his preference shares into fully paid New Ordinary Shares at the initial conversion rate of 1 New Ordinary Share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares shall be entitled to exercise the conversion rights if, as a result, the Company's shares issued upon conversion together with any shares of the Company then in issue would result in the minimum prescribed percentage of the Company's shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied.

Notes to the Financial Statements

For the year ended 31 December 2002

21. Reserves

	Goodwill reserve *HK$'000*	Special reserve *HK$'000* *(note (a))*	Contributed surplus *HK$'000* *(note (b))*	Retained profits *HK$'000*	Total *HK$'000*
Group					
Balance at 1 January 2001	(8,351)	510	—	80,165	72,324
Net profit for the year	—	—	—	42,022	42,022
Balance at 31 December 2001 and 1 January 2002	(8,351)	510	—	122,187	114,346
Issue of ordinary shares in accordance with the Shareholders' Scheme *(note 20(c)(i))*	—	—	—	(45)	(45)
Issue of ordinary shares in accordance with the Creditors' Scheme *(note 20(c)(ii))*	—	—	—	(481)	(481)
Issue of ordinary and preference shares in accordance with the Sale and Purchase Agreement *(note 20(c)(iii))*	—	(7,284)	—	—	(7,284)
Net profit for the year	—	—	—	11,295	11,295
Dividends paid *(note 10)*	—	—	—	(7,810)	(7,810)
Balance at 31 December 2002	**(8,351)**	**(6,774)**	**—**	**125,146**	**110,021**
Company					
Arising from the Group Restructuring	—	—	111,266	—	111,266
Net profit for the year	—	—	—	7,029	7,029
Dividends paid *(note 10)*	—	—	(7,810)	—	(7,810)
Balance at 31 December 2002	**—**	**—**	**103,456**	**7,029**	**110,485**

Notes to the Financial Statements

For the year ended 31 December 2002

21. Reserves *(Continued)*

Notes:

(a) The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company in consideration therefor.

(b) The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company pursuant to the Group Restructuring and the nominal value of the Company's shares issued for the acquisition, less subsequent dividends paid.

(c) The Company's reserves available for distribution to shareholders as at 31 December 2002 represent the aggregate of contributed surplus and retained profits of HK$110,485,000.

22. Retirement Benefits Schemes

The Group has joined a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at the rates specified in the rules of the scheme.

Employees in the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 8% to 9% of the employee payroll to the scheme to fund the retirement benefits to the employees.

The details of the pension scheme contributions for the directors and employees which have been dealt with in the income statement of the Group for the year, are as follows:

	2002 *HK$'000*	2001 *HK$'000*
Gross scheme contributions	**1,573**	1,325

Notes to the Financial Statements

For the year ended 31 December 2002

23. Operating Lease Commitments

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company
	2002	2001	**2002**
	HK$'000	*HK$'000*	***HK$'000***
Land and buildings			
Within one year	**7,446**	6,537	**2,200**
In the second to fifth years inclusive	**20,999**	25,854	**—**
Over five years	**3,025**	7,025	**—**
	31,470	39,416	**2,200**

24. Capital Commitments

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment	**668**	72,069
Authorised but not contracted for in respect of acquisition of property, plant and equipment	**350**	—
	1,018	72,069

The Company had no significant capital commitment as at 31 December 2002.

25. Contingent Liabilities

The Group had no significant contingent liabilities at 31 December 2002.

At 31 December 2002, the Company has issued corporate guarantees of HK$70,100,000 to certain banks in respect of banking facilities granted to its subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2002

26. Related Party Transactions

During the year, the Group had the following material transactions with related parties:

Name of party	Nature of transactions/balances	*Notes*	**2002 HK$'000**	2001 HK$'000
Companies in which Li Shi Yuen, Joseph and Chui Kam Wai, (directors of the Company) have beneficial interests:				
Li & Chui (Holdings) Company Limited	Motor vehicles disposed of by the Group	*(a)*	**—**	1,095
Ultimate holding company:				
Nam Tai	Development charges received by the Group	*(b)*	**—**	9,000
Fellow subsidiaries:				
Nam Tai Group Management Limited	Investment properties disposed of by the Group	*(a)*	**—**	4,120
	Rental expenses paid by the Group	*(a)*	**—**	100
	Service fees paid by the Group	*(d)*	**3,080**	—
	Balance due to the Group	*(c)*	**—**	49,134
Nam Tai Telecom (Hong Kong) Company Limited	Development charges received by the Group	*(b)*	**—**	3,000
	Balance due to the Group	*(c)*	**—**	3,000
Namtai Electronic (Shenzhen) Co. Ltd.	Sales of goods by the Group	*(a)*	**446**	—
	Balance due to/(by) the Group	*(c)*	**430**	(53)
Zastron Electronic (Shenzhen) Co. Ltd.	Purchase of property, plant and equipment by the Group	*(e)*	**1,352**	—

Notes to the Financial Statements

For the year ended 31 December 2002

26. Related Party Transactions *(Continued)*

Notes:

(a) The transactions were carried out at terms determined and agreed by both parties.

(b) The transactions were carried out in accordance with the relevant service agreements in respect of consultancy and advisory services provided by the Group.

(c) The amounts are unsecured, non-interest bearing and repayable on demand.

(d) The Group has entered into a business facilities agreement with Nam Tai Group Management Limited, under which Nam Tai Group Management Limited provided the Group with (i) office space furnished with fittings, decorations, office equipment and furniture and use of common areas; and (ii) certain office facilities, office services and outgoings, office equipment and utilities.

(e) The transaction was carried out in accordance with the agreement in respect of purchase of property, plant and equipment by the Group.

The directors of the Company have represented that all of the above-mentioned transactions were entered into in the ordinary course of business of the Group.

27. Post Balance Sheet Event

On 20 January 2003, the Company entered into a subscription agreement with iMagic Informedia Technology Limited ("iMagic") pursuant to which the Company agreed to subscribe for 60 shares of HK$1 each in iMagic (the "iMagic Shares"), representing 5.36% of the total issued capital of iMagic, for a cash consideration of HK$3,000,000. On the same date, the Company also entered into a deed of put option with Mr. Tsang Cheung under which Mr. Tsang Cheung grants to the Company an option to require Mr. Tsang Cheung to purchase the iMagic Shares from the Company at a consideration of HK$3,000,000. The put option is exercisable from 31 December 2004 up to 30 January 2005.

28. Approval of the Financial Statements

The financial statements on pages 20 to 48 were approved by the Board of Directors on 14 February 2003.