

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Nam Tai Electronics, Inc. ("Nam Tai"), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange.

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, 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 on 4 June 2002. The resulting entity from the Group Restructuring is regarded as a continuing entity. Accordingly, in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" under the Hong Kong Financial Reporting Standards (which is inclusive of SSAPs and Interpretations approved by the Hong Kong Society of Accountants), the financial statements of the Group for the year ended 31 December 2002 have been prepared on a merger basis as if the Company had always been the holding company of the Group.

Details of the Group Restructuring are set out in a document dated 18 April 2002 entitled "Restructuring Proposal for Albatronics (Far East) Company Limited (In Liquidation) by Way of Schemes of Arrangement Under Section 166 of the Companies Ordinance and Application for Listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited by Way of Introduction" (the "Document").

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 12.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results of the Group for the current or prior accounting years.

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3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Goodwill

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

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

Goodwill arising on acquisitions of subsidiaries after 1 January 2001 is capitalised as a separate asset and amortised on a straight line basis over its useful economic life.

Investments in subsidiaries

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

Turnover

Turnover represents the amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales 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.

Property, plant and equipment

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

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives using the straight line method, on the following bases:

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

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

Research and development expenditure

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

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

Where no clearly-defined project can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Club membership

Club membership is stated at cost less identified impairment losses.

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments. Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Inventories

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

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollar and which operate outside Hong Kong are translated into Hong Kong dollars using the temporal method. All assets, liabilities, revenue and expense in currencies other than Hong Kong dollar are translated at the exchange rate ruling at the date on which the amounts are recorded. Monetary assets and liabilities are re-translated at the approximate rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group was organised into two operating divisions — manufacturing and distribution of liquid crystal displays (“LCD”), and transformers (“Transformers”). The Transformers business was disposed of on 28 June 2003 and discontinued thereafter (note 6). These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2003

	(Discontinued)		
	LCD	Transformers	Consolidated
	HK\$'000	HK\$'000	HK\$'000
TURNOVER			
External sales	273,534	51,943	325,477
RESULT			
Segment result	20,053	275	20,328
Finance costs	(907)	—	(907)
Profit on disposal of discontinued operations	—	17,620	17,620
Profit before taxation			37,041
Taxation	(71)	42	(29)
Net profit for the year			37,012
OTHER INFORMATION			
Capital additions	2,846	815	3,661
Depreciation of property, plant and equipment	19,300	476	19,776
Allowance for bad and doubtful debts	720	—	720

At 31 December 2003, the Group was solely engaged in the LCD business and accordingly no analysis of the Group's assets and liabilities by business segments had been presented.

Notes to the Financial Statements

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002

	LCD HK\$'000	(Discontinued) Transformers HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	186,815	88,663	275,478
RESULT			
Segment result	8,643	3,802	12,445
Finance costs	(661)	—	(661)
Profit before taxation			11,784
Taxation	(455)	(34)	(489)
Net profit for the year			11,295
BALANCE SHEET			
ASSETS			
Segment assets	176,226	45,087	221,313
Unallocated corporate assets			1,457
Total assets			222,770
LIABILITIES			
Segment liabilities	76,990	25,622	102,612
Unallocated corporate liabilities			2,327
Total liabilities			104,939
OTHER INFORMATION			
Capital additions	95,904	1,777	97,681
Depreciation of property, plant and equipment	13,516	808	14,324
Allowance for bad and doubtful debts	281	155	436

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales by geographical market	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	75,989	102,232
The PRC	226,327	134,700
Japan	15,892	30,609
Others	7,269	7,937
	325,477	275,478

Revenue from the Group's discontinued Transformers business was derived principally from Hong Kong (2003: HK\$16,419,000; 2002: HK\$39,427,000), the PRC (2003: HK\$19,852,000; 2002: HK\$15,549,000), Japan (2003: HK\$14,259,000; 2002: HK\$29,004,000) and other locations (2003: HK\$1,413,000; 2002: HK\$4,683,000).

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	107,067	76,242	57	57
The PRC	125,067	145,071	3,604	97,624
	232,134	221,313	3,661	97,681

Notes to the Financial Statements

For the year ended 31 December 2003

5. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remunerations	43,417	41,741
Retirement benefit scheme contributions	1,979	1,573
Total staff costs	45,396	43,314
Less: Included in research and development expenses	(1,699)	—
	43,697	43,314
Allowance for bad and doubtful debts, net	708	436
Auditors' remuneration	585	601
Depreciation of property, plant and equipment	19,776	14,324
Loss on disposal of property, plant and equipment	15	342
Net foreign exchange losses	888	122
Operating lease rentals in respect of rented premises	4,128	4,498
and after crediting:		
Bank interest income	46	82

6. PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS

In June 2003, the Group entered into a sale agreement to dispose of its Transformers business. The disposal was effected in order to dedicate more resources and focus on its LCD business. The disposal was completed on 28 June 2003 when the control of the Group's Transformers business passed to the acquirer.

The details of the results of the Transformers business for the period from 1 January 2003 to 28 June 2003 and for the year ended 31 December 2002, which have been included in the consolidated financial statements, are set out in note 4. The carrying amounts of the assets and liabilities of the Transformers business at the date of disposal are disclosed in note 23.

Notes to the Financial Statements

For the year ended 31 December 2003

6. PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS *(Continued)*

During the year, the Transformers business contributed HK\$0.9 million to (2002: utilised 0.2 million of) the Group's net operating cash flows, paid HK\$0.8 million (2002: HK\$1.7 million) in respect of investing activities and paid HK\$0.1 million (2002: received HK\$0.1 million) in respect of financing activities.

A profit of approximately HK\$17,620,000 arose on the disposal of the Transformers business, being the proceeds of disposal less the carrying amount of the net assets of the Transformers business.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	360	210
Other emoluments (executive directors):		
Salaries and other benefits	1,537	2,961
Retirement benefit scheme contributions	12	24
	1,549	2,985
Total emoluments	1,909	3,195

Notes to the Financial Statements

For the year ended 31 December 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	8	7
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	1

For the year ended 31 December 2003, one of the independent non-executive directors waived emoluments of HK\$120,000 (2002: HK\$60,000).

(b) Employees' emoluments

During the year, the five highest paid individuals included one director (2002: two directors), details of whose emoluments are set out in note 7(a) above. The emoluments of the remaining four (2002: three) highest paid individuals were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	2,424	2,168
Retirement benefits scheme contributions	48	30
	2,472	2,198

None of the emoluments of these employees were in excess of HK\$1,000,000.

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For the year ended 31 December 2003

8. TAXATION

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax		
Current year	300	270
Under(over)provision in prior years	103	(184)
PRC income tax		
Current year	—	453
(Over)underprovision in prior years	(44)	250
	359	789
Deferred taxation (note 20)		
Current year	(85)	(95)
Overprovision in prior years	(276)	(205)
Attributable to change in tax rate	31	—
	(330)	(300)
	29	489

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/04 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31 December 2003.

PRC income tax is calculated at the applicable rates relevant to the PRC subsidiaries. Pursuant to the relevant laws and regulations in the PRC, a foreign investment enterprise ("FIE") whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of the taxes already paid on those profits. One of the Company's PRC subsidiaries qualified for such tax refunds as a result of the Group's reinvestment of its profit earned in previous years. At 31 December 2002 and 2003, taxation recoverable under such arrangements were approximately HK\$1,288,000, and HK\$2,176,000, respectively, which are included in taxation recoverable.

Notes to the Financial Statements

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8. TAXATION (Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	37,041		11,784	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	6,482	17.5	1,885	16.0
Tax effect of (income) expenses that are not taxable/deductible in determining taxable profit	(2,871)	(7.8)	1,398	11.8
Tax effect of tax losses not recognised	127	0.3	30	0.3
Tax effect of PRC income tax refunded	(1,510)	(4.1)	(1,141)	(9.7)
Increase in opening deferred tax balances from an increase in the applicable tax rate in Hong Kong	31	0.2	—	—
Underprovision of income tax expense in prior years	59	0.1	66	0.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,013)	(5.4)	(1,544)	(13.1)
Others	(276)	(0.7)	(205)	(1.7)
Tax expense and effective tax rate for the year	29	0.1	489	4.2

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9. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim paid		
— HK\$0.02 per ordinary share (2002: HK\$0.01 per ordinary share)	3,651	1,826
— HK\$0.02 per preference share (2002: HK\$0.01 per preference share)	11,968	5,984
	15,619	7,810

The final dividend of HK\$0.022 (2002: Nil) per ordinary share and HK\$0.022 (2002: Nil) per preference share to the shareholders on the register of members on 16 April 2004, amounting to approximately HK\$17,069,000, have been proposed by the directors in respect of the results for the year ended 31 December 2003 and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

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

	2003 HK\$'000	2002 HK\$'000
Net profit for the year	37,012	11,295
Dividends on preference shares	(11,968)	(5,984)
Earnings for the purposes of basic earnings per share	25,044	5,311
Effect of dilutive potential ordinary shares		
— Dividends on convertible preference shares	11,968	5,984
Earnings for the purposes of diluted earnings per share	37,012	11,295

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For the year ended 31 December 2003

10. EARNINGS PER SHARE (Continued)

	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	199,832,136	182,544,465
Effect of dilutive potential ordinary shares — Convertible preference shares	563,702,620	580,990,291
Weighted average number of ordinary shares for the purposes of diluted earnings per share	763,534,756	763,534,756

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP COST					
At 1 January 2003	16,812	127,139	5,848	2,031	151,830
Additions	1,407	1,363	782	109	3,661
Disposal of the Transformers business	(1,676)	(5,571)	(1,197)	(767)	(9,211)
Disposals	—	(77)	(40)	(440)	(557)
At 31 December 2003	16,543	122,854	5,393	933	145,723
DEPRECIATION					
At 1 January 2003	5,120	30,107	2,276	1,470	38,973
Provided for the year	2,582	16,206	807	181	19,776
Disposal of the Transformers business	(434)	(4,177)	(635)	(581)	(5,827)
Eliminated on disposals	—	(5)	(34)	(438)	(477)
At 31 December 2003	7,268	42,131	2,414	632	52,445
NET BOOK VALUES					
At 31 December 2003	9,275	80,723	2,979	301	93,278
At 31 December 2002	11,692	97,032	3,572	561	112,857

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12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	119,576	119,576
Less: Dividends distributed from pre-reorganisation reserves of the subsidiaries	(56,394)	—
	63,182	119,576

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Restructuring, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

Details of the Company's principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and paid up share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company	Principal activities
			%	
J.I.C. Enterprises (Hong Kong) Limited ("JEL")	Hong Kong	HK\$500,000	100	Investment holding and manufacture and trading of electronic components
Jetup Electronic (Shenzhen) Co., Limited ("Jetup")	PRC (note)	HK\$81,313,145	100	Manufacture of LCD

JEL and Jetup are directly and indirectly held by the Company, respectively.

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

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12. INVESTMENTS IN SUBSIDIARIES (Continued)

None of the subsidiaries had issued any debt securities at end of the year.

Note: The Company is registered in the form of a wholly owned FIE.

13. OTHER INVESTMENT

	The Group and The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted equity shares, at fair value	3,000	—

On 20 January 2003, the Company entered into a subscription agreement with iMagic Infomedia 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, a then shareholder and director of iMagic, under which he grants to the Company an option to require him 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.

14. INVENTORIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
At cost		
Raw materials	19,634	21,482
Work in progress	6,595	3,805
Finished goods	670	2,886
	26,899	28,173

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15. TRADE AND OTHER RECEIVABLES

The Group's policy is to allow credit periods ranging from 60 days to 120 days (2002: 60 days to 120 days) to its trade customers.

At 31 December 2003, the balances of trade and other receivables included trade receivables of approximately HK\$64,437,000 (2002: HK\$62,437,000) and their aged analysis prepared on the basis of sales invoice date is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	26,971	28,021
More than 30 days and within 60 days	27,438	21,001
More than 60 days and within 90 days	6,783	7,076
More than 90 days	3,245	6,339
	64,437	62,437

16. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

The balances are unsecured, non-interest bearing and have a credit period of 60 days.

17. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

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18. TRADE AND OTHER PAYABLES

At 31 December 2003, the balances of trade and other payables included trade payables of approximately HK\$42,487,000 (2002: HK\$54,746,000) and their aged analysis prepared on the basis of supplier invoice date is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	25,532	27,569
More than 30 days and within 60 days	11,661	20,901
More than 60 days and within 90 days	5,143	5,451
More than 90 days	151	825
	42,487	54,746

19. BANK BORROWINGS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bank borrowings comprise:		
Bank loans	21,938	30,713
Trust receipt loans	11,941	7,235
	33,879	37,948

The bank borrowings are repayable as follows:

On demand or within one year	20,716	16,010
In the second year	8,775	8,775
In the third to fifth years inclusive	4,388	13,163
	33,879	37,948
Less: Amounts due for settlement within one year (shown under current liabilities)	(20,716)	(16,010)
Amounts due for settlement after one year	13,163	21,938

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20. DEFERRED TAXATION

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

	The Group <i>HK\$'000</i>
At 1 January 2002	630
Credit to income	(300)
At 31 December 2002 and 1 January 2003	330
Credit to income	(361)
Effect of change in tax rate — charge to income statement	31
At 31 December 2003	—

At 31 December 2002, the deferred taxation represented the tax effect of temporary differences attributable to the accelerated tax depreciation.

At 31 December 2003, the Group had unutilised tax losses of approximately HK\$916,000 (2002: HK\$188,000) that may be carried forward indefinitely for offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

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21. SHARE CAPITAL

		Ordinary shares of HK\$0.01 each		Non-redeemable convertible preference shares of HK\$0.01 each		
	Notes	Number of shares	HK\$'000	Number of shares	HK\$'000	Total HK\$'000
Authorised:						
On incorporation on						
8 January 2002	(a)	100,000,000	1,000	—	—	1,000
Increase during the period	(b)	1,900,000,000	19,000	600,000,000	6,000	25,000
At 31 December 2002, 1 January 2003 and 31 December 2003						
		2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:						
On incorporation on						
8 January 2002		—	—	—	—	—
Increase during the year	(c), (d)	182,544,465	1,826	598,420,000	5,984	7,810
At 31 December 2002 and 1 January 2003						
		182,544,465	1,826	598,420,000	5,984	7,810
Conversion of preference shares to ordinary shares during the year	(e)	170,000,000	1,700	(175,100,000)	(1,751)	(51)
At 31 December 2003						
		352,544,465	3,526	423,320,000	4,233	7,759

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 ordinary shares 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 and 600,000,000 preference shares of HK\$0.01 each.

Notes to the Financial Statements

For the year ended 31 December 2003

21. SHARE CAPITAL (Continued)

Notes: (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 were transferred to the Company and the shareholders of Albatronics received 4,444,465 ordinary shares in 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 ordinary shares of the Company, credited as fully paid-up, and Nam Tai received a further 4,100,000 ordinary shares in 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 ordinary shares in the Company, credited as fully paid-up; (ii) Nam Tai received 598,420,000 non-voting non-redeemable convertible preference shares of HK\$0.01 each in the Company ("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 ordinary shares in the Company, credited as fully paid-up to Yu Ming or its nominees.
- (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 ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 Preference Shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary 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 ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary 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. On any payment of dividend or distributions (other than a distribution on winding up), the Preference Shares shall rank *pari passu* with the ordinary shares.

Notes to the Financial Statements

For the year ended 31 December 2003

21. SHARE CAPITAL (Continued)

Notes: (Continued)

- (e) During the year ended 31 December 2003, Nam Tai exercised the conversion right of 175,100,000 Preference Shares, resulting in the issuance of 170,000,000 ordinary shares in the Company and the creation of ordinary share premium of approximately HK\$51,000. The ordinary shares issued rank pari passu in all respects with the then existing issued ordinary shares in the Company.

22. RESERVES

	Ordinary share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
Arising from the Group Restructuring	—	111,266	—	111,266
Net profit for the year	—	—	7,029	7,029
Dividends paid (Note 9)	—	(7,810)	—	(7,810)
At 31 December 2002 and 1 January 2003	—	103,456	7,029	110,485
Conversion of preference shares to ordinary shares (Note 21(e))	51	—	—	51
Net profit for the year	—	—	20,259	20,259
Dividends paid (Note 9)	—	—	(15,619)	(15,619)
At 31 December 2003	51	103,456	11,669	115,176

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.

Notes to the Financial Statements

For the year ended 31 December 2003

22. RESERVES *(Continued)*

In addition to the accumulated profits of the Company, the ordinary share premium and the contributed surplus accounts of the Company are also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders at 31 December 2003 amounted to approximately HK\$115,176,000 (2002: HK\$110,485,000).

Notes to the Financial Statements

For the year ended 31 December 2003

23. DISPOSAL OF BUSINESS

As referred to in note 6, on 28 June 2003 the Group discontinued its Transformers business at the time of the disposal of certain of its subsidiaries.

The net assets of the Transformers business at the date of disposal and at 31 December 2002 were as follows:

	28.6.2003	31.12.2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	3,384	3,045
Inventories	5,632	6,199
Trade and other receivables	18,252	21,750
Amount due from the Group	6,390	340
Amount due from a fellow subsidiary	1,065	13,396
Bank balances and cash	308	356
Trade and other payables	(18,901)	(25,622)
Taxation payable	—	(47)
	16,130	19,417
Profit on disposal	17,620	
Total consideration	33,750	
Satisfied by:		
Cash consideration received	18,921	
Assumption of debt of the Group	6,390	
Assignment of certain trade receivables and amount due from a fellow subsidiary, and assumption of certain trade and other payables of the Transformers business	8,439	
	33,750	
Net cash inflow arising on disposal:		
Cash consideration received	18,921	
Bank balances and cash disposed of	(308)	
	18,613	

Notes to the Financial Statements

For the year ended 31 December 2003

24. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date.

At 31 December 2003, the Company had issued corporate guarantees amounting to HK\$70,100,000 (2002: HK\$70,100,000) to certain banks in respect of banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries amounted to approximately HK\$33,879,000 (2002: HK\$37,948,000).

25. CAPITAL COMMITMENTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	5,502	668
Authorised but not contracted for	—	350
	<hr/>	<hr/>
	5,502	1,018
	<hr/>	<hr/>

The Company had no significant capital commitments at the balance sheet date.

26. OPERATING LEASE COMMITMENTS

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
Within one year	8,955	7,446
In the second to fifth year inclusive	32,235	20,999
Over five years	28,536	3,025
	<hr/>	<hr/>
	69,726	31,470
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

26. OPERATING LEASE COMMITMENTS *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to eight years. The rentals for the lease of factory premises included 10% increments in monthly rental for every three years.

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases amounting to HK\$2,200,000 (2002: HK\$2,200,000) in respect of rented premises, which fall due within one year.

27. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme established under the Mandatory Provident Fund Ordinance for its qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK\$1,000 or 5% of the relevant payroll costs to the scheme, which contributions are matched by employees. No forfeited contributions are available to reduce the contributions payable in the future years.

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the local municipal government. The PRC subsidiaries are required to contribute 8% to 9% of the employee payroll to the schemes to fund the retirement benefits to the employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total cost charged to consolidated income statement represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

28. SHARE OPTION SCHEMES

(a) Share option schemes adopted by Nam Tai

In August 1993, the board of directors of Nam Tai approved a stock option plan which authorised the issuance of 900,000 vested options to key employees, consultants or advisors of Nam Tai or any of its subsidiaries for the primary purpose of providing them incentives. After the amendment of the option plan in April 1999, the maximum number of shares to be issued pursuant to the exercise of options granted was increased to 4,275,000. The option price granted to the eligible participants shall not normally be less than market value of the common shares of Nam Tai at the date of grant. The options granted under this plan vest immediately and generally have a term of three years, but cannot exceed ten years. The options are granted to employees based on past performance and/or expected contribution to Nam Tai.

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEMES (Continued)

(a) Share option schemes adopted by Nam Tai (Continued)

In May 2001, the board of directors of Nam Tai approved another stock option plan which would grant 15,000 options to each independent director of Nam Tai elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of Nam Tai or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan. The maximum number of shares to be issued pursuant to the exercise of options granted was 3,000,000 shares. The option price granted to directors shall be equal to 100% of the market value of the common shares of Nam Tai on the date of grant. The option price granted to other eligible participants other than directors shall not normally be less than market value of the common shares of Nam Tai on the date of grant. The options granted under this plan vest immediately and generally have a term of three years, but cannot exceed ten years. The options are granted to independent directors based on past performance and/or expected contribution to Nam Tai.

Effective 1 January 2003, Nam Tai has suspended issuing options to management and employees except for the independent directors. Rather, the board of directors of Nam Tai approved an incentive bonus program to reward management and employees with a cash bonus in lieu of stock options.

The following tables disclosed details of the share option schemes of Nam Tai held by employees (including directors) of the Company and movements in such holdings during the year of 2002 and 2003:

Option schemes	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002 and 1.1.2003		Exercised during the year	Outstanding at 31.12.2003
1993	420,000	177,000	240,000	357,000	357,000	—	—
2001	400,200	243,000	328,200	315,000	315,000	—	—
	820,200	420,000	568,200	672,000	672,000	—	—

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEMES (Continued)

(a) Share option schemes adopted by Nam Tai (Continued)

Details of the share option schemes of Nam Tai held by the directors included in the above table are as follows:

Option schemes	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002 and 1.1.2003		Exercised during the year	Outstanding at 31.12.2003
1993	420,000	177,000	240,000	357,000	357,000	—	—
2001	315,000	135,000	195,000	255,000	255,000	—	—
	735,000	312,000	435,000	612,000	612,000	—	—

Details of specific categories of options are as follows:

Option scheme	Date of grant	Exercisable period	Exercise price per shares US\$
1993	1 February 2000	31 May 2001 — 31 January 2003	4.625
	16 March 2001	16 March 2001 — 16 March 2004	4.647
	30 April 2002	30 April 2002 — 30 April 2005	6.617
2001	22 June 2001	22 June 2001 — 22 June 2004	4.834
	27 June 2001	27 June 2001 — 22 June 2002	2.334
	30 April 2002	30 April 2002 — 30 April 2005	6.617

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme adopted by the Company

On 16 April 2002, a share option scheme ("the Scheme") was approved by the board of directors and enables the Company to grant options to eligible participants for the purpose of providing incentives and rewards to who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee of the Group (including any director of the Company or any of its subsidiaries) and those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company shares are listed on The Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share option is determinable by the board of directors, but shall not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing prices of the Company's ordinary shares as stated in the Stock Exchange for the five trading days immediately preceding the date of grant of that option, and (iii) the nominal value of the Company shares.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other scheme) shall not exceed 10% of the ordinary share capital of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options shall be deemed to have been accepted when the counterpart of the option agreement is duly signed by the grantee together with a remittance in favour of the Company in the amount specified in the offer, as being the consideration for the grant of the option, is received by the Company at the place specified in the option agreement within 28 days from the date of the offer or such other period as the board of directors may specify in writing. An option may be exercised during the period specified in the terms of grant.

No options have been granted under the Scheme since its adoption.

Notes to the Financial Statements

For the year ended 31 December 2003

29. RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with the following fellow subsidiaries wholly owned by Nam Tai:

Name of related party	Nature of transactions	2003	2002
		HK\$'000	HK\$'000
Namtai Electronic (Shenzhen) Co. Ltd. ("NTSZ")	Sales of finished goods by the Group (note a)	143	106
	Silk screening services provided by the Group (note b)	2,889	340
Nam Tai Group Management Limited ("NTGM")	Service fees paid by the Group (note c)	5,280	3,080
Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron")	Purchase of property, plant and equipment by the Group (note d)	—	1,352
	Purchase of processed goods by the Group (note e)	39,848	—
	Sales of raw materials by the Group (note e)	35,638	—
	Silk screening services provided by the Group (note f)	119	—

Notes to the Financial Statements

For the year ended 31 December 2003

29. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) The transactions were carried out at terms determined and agreed by both parties.
- (b) The Group provides silk screening services to NTSZ by selling electronic components to NTSZ bearing the customers' logo or marks of NTSZ. The transactions were carried out at terms determined and agreed by both parties. Full details of the transaction were disclosed in announcements of the Company dated 24 October 2002 and 17 April 2003.
- (c) On 16 April 2002, the Group entered into a business facilities agreement ("BFA") with NTGM for a term of 12 months from 4 June 2002 to 30 May 2003, under which NTGM agreed to provide the Group with (i) office space with a gross area of approximately 4,500 square feet 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. The monthly service charge was HK\$440,000. On 16 April 2003, the BFA was renewed for another 12 months expiring 30 May 2004 on the same terms and conditions. Full details of the transaction were disclosed in an announcement of the Company dated 17 April 2003.
- (d) The transaction was carried out in accordance with the agreement for the purchase of property, plant and equipment by the Group.
- (e) On 10 March 2003, the Group entered into two separate agreements ("Sale/Purchase Agreement") on the sale of materials comprising LCD, anisotropic conductive films and integrated circuits to Zastron, and the subsequent purchase of the processed products from Zastron. The transactions were carried out in accordance with the Sale/Purchase Agreement. Full details of the transactions were disclosed in announcements of the Company dated 11 March 2003 and 14 August 2003, and contained in the circular issued to the shareholders of the Company dated 5 September 2003.
- (f) The Group provides silk screening services to Zastron by selling electronic components to Zastron bearing the customers' logo or marks of Zastron. The transactions were carried out at terms determined and agreed by both parties.

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on 27 and note 16.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. In particular, taxation payable in the amount of approximately HK\$750,000 at 31 December 2002 has been reclassified from taxation recoverable.