



# Tomorrow International Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2003

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# Corporate Information



## Directors

### Executive Directors

YAU Tak Wah, Paul (*Chairman*)  
LOUIE Mei Po  
WONG Shin Ling, Irene  
TAM Wing Kin  
TAM Ping Wah

### Independent Non-executive Directors

NG Wai Hung  
CHEUNG Chung Leung, Richard

## Company Secretary

MA Wing Kuen, Ricky

## Auditors

Ernst & Young

## Legal Advisers in Hong Kong

Vincent T.K. Cheung, Yap & Co.  
Julia Wong & Partners  
Heller Ehrman White & McAuliffe

## Legal Advisers on Bermuda Law

Conyers, Dill & Pearman

## Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## Head Office and Principal Place of Business

27th Floor, Henley Building  
5 Queen's Road Central  
Hong Kong

## Principal Share Registrar

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM11  
Bermuda

## Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited  
Room 1901-1905,  
19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking  
Corporation Limited  
Credit Suisse  
UBS  
International Bank of Asia  
Industrial and Commercial Bank of China  
(Asia) Limited  
Liu Chong Hing Bank Limited  
Bank of Communications



## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of the Company will be held at Unit 903-906, 9th Floor, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong on Tuesday, 8th, June 2004 at 12:00 noon for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2003.
2. To re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

(A) **"THAT:**

- (i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); (b) the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into shares of the Company; (c) any share option scheme of the Company; and (d) any scrip dividend or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company in force from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the approval granted under (A)(i) and A(ii) shall be limited accordingly; and
- (iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

  - (a) the conclusion of the next annual general meeting of the Company;



## Notice of Annual General Meeting



- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (c) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares, or offer or issue of warrants, options or other securities giving rights to subscribe for shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company).”

(B) **“THAT:**

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the capital of the Company subject to and in accordance with all applicable laws and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares in the capital of the Company which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the approval granted under paragraph (B)(i) shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (c) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”



## Notice of Annual General Meeting

(C) **“THAT** the general mandate granted to the directors to exercise the powers of the Company to allot, issue and otherwise deal with shares of the Company pursuant to resolution numbered 4(A) above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted by the directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution numbered 4(B) above.”

5. As special business, to consider and, if thought fit, pass with or without modification, the following resolution as a special resolution:

**“THAT** the Bye-Laws of the Company be amended as follows:

1. Bye-law 1

by adding the following new definition immediately after the definition of “Act”:

“ “associate(s)” shall have the same meaning attributed to it in the rules of the Designated Stock Exchange;”

2. Bye-law 76

by re-numbering Bye-law 76 as 76(1) and inserting the new Bye-law 76(2) as follows:

“Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

3. Bye-law 88

by deleting Bye-law 88 in its entirety and replacing it with the following new Bye-law 88:

“No person, other than a retiring Director, shall unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given, and notice in writing by the person to be proposed of his willingness to be elected shall have been lodged with the Company at the Office or at the head office no earlier than the day after despatch of the notice of the general meeting and no later than seven days before the date of the general meeting and provided that the minimum length of the period during which such notice may be given shall be at least seven days.”



## Notice of Annual General Meeting



#### 4. Bye-law 103

- (i) by deleting paragraph (1) in its entirety and replacing it with the following new paragraph (1):

“Save as otherwise provided by the Bye-laws, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his associates has a material interest, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of them or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself or themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any of its subsidiaries or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associates is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or third company through which his interest or that of any of his associates is derived);
- (vi) any proposal or arrangement for the benefit of employees of the Company or any of its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates;



## Notice of Annual General Meeting

- (vii) any proposal or arrangement concerning the benefit of employees of the issuer or its subsidiaries including the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the director or his associate(s) may benefit."
- (ii) by deleting the existing paragraph (2) and replacing it with the following new paragraph (2):

"A company shall be deemed to be a company in which a Director together with any of his associate(s) own(s) 5 per cent or more if and so long as (but only if and so long as) he and/or his associate(s) are (either directly or indirectly) the holders of or beneficially interested in 5 per cent or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the Director's or any of his associate(s)'s interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in any authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder."

6. To transact any other business of the Company.

By Order of the Board  
**Yau Tak Wah, Paul**  
*Chairman*

Hong Kong, 29th April 2004

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of Business:*

27th Floor  
Henley Building  
5 Queen's Road Central  
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the head office and principal place of business of the Company at 27th Floor, Henley Building, 5 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. With reference to Resolution 4(B) above, the explanatory statement containing the information relating to the repurchase of shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be despatched to shareholders in due course.



## Chairman's Statement



The Board of Directors (the "Board") of Tomorrow International Holdings Limited (the "Company") is pleased to announce the 2003 audited annual results of the Company, its subsidiaries and associates (collectively the "Group") for the year ended 31 December 2003.

### Results

The Group's profit attributable to shareholders for the year was HK\$11.7 million (2002: HK\$62.8 million), a decrease of 81.4% from the previous year. Earnings per share amounted to HK\$4.09 cents, compared with HK\$22.3 cents, adjusted for a capital reorganisation which took effect on 30 June 2003, in the previous year. At 31 December 2003, the Group's net cash position amounted to HK\$456.6 million (2002: HK\$322.4 million), representing 65.4% of the shareholders fund of HK\$698.2 million (2002: HK\$688.1 million).

The Board does not recommend the payment of any final dividend (2002: Nil).

### Business Review

In the year of 2003, the world economy got on a roller-coaster with an exciting journey. The economic condition reached the trough during the first quarter at the time of the Iraq war and finally exhibited an encouraging recovery. Fuelled by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), the Hong Kong economy inevitably confronted with a difficult time during the first half of the year under review. However, in consequence of the Iraq war passing off and the encouraging support from the Chinese Government through a number of economic recovery measures, the local economy has been regaining a recovery by the end of the year.

Owing to the SARS outbreak and the Iraq war, the export business of the Electronic Products Division deteriorated in the first half of the year. Although the sales orders have gradually been picking up in the last quarter, the turnover of the Electronic Products Division moderately decreased by 8.3% for the year under review. During the year, apart from the manufacture of consumer electronic products, the Group has successfully established new production lines in a new leased factory building in Shenzhen for the manufacture of lithium rechargeable battery parts for Matsushita Group, a well-known Japanese electronic giant. The new factory has become fully operational in the fourth quarter of 2003 and has already achieved a breakeven position by the end of the year. It is an encouraging progress in implementing business diversification program and is in line with the long-term strategy of the Group.

The printed circuit boards ("PCB") business experienced a low time in 2003. As a result of the restructure of the production management organisation during the year, unstable output quality had caused higher-than-normal material consumption that significantly reduced the already thinned profit margin. Although the turnover increased by 35.1% to HK\$130.9 million (2002: HK\$96.9 million), the PCB Division suffered an operating loss of HK\$18.3 million (2002: HK\$1.3 million) for the year ended 31 December 2003.

To adopt a prudent approach, the trading of listed equity securities and the provision of loan financing activities remained inactive.

The SARS outbreak and the Iraq war also hit the business of Swank International Manufacturing Company Limited ("Swank"). Turnover dropped from HK\$207.7 million in year 2002 to HK\$192.2 million in year 2003. Sales orders of the year decreased by HK\$49.5 million to HK\$195.8 million (2002: HK\$245.3 million) resulting in the low utilisation of production capacity. Coupled with the price cutting pressure from certain customers, gross profit margin decreased to 12.4% (2002: 20.2%). Somehow, the adverse impact was partially offset by savings in overhead cost through various cost reduction measures.

### Future Plans

In the year of 2004, it is believed that the world economy will gradually gather momentum. In particular, a signal of turnaround in the Japanese economy is being uncovered after its over 10 years of economic recession. The export business of the Group is likely to benefit from it.

In view of the widely adoption of wireless application in electronic devices, the Group will dedicate more resources and efforts for in the development of new products with wireless features to cater for the ever-changing consumer market. On the other hand, as most of the international electronics manufacturers have relocated or prepared to relocate their manufacturing bases to the Mainland China, it provides ample opportunities for the further development of our OEM business. In addition to the manufacture of consumer electronic products, business diversification within the electronics industry is always on our agenda.

As a key player in the optical industry, the Group aims to widen its customer base by implementing viable business development plans with international brand name customers and by developing new markets, including Asian region. Moreover, the Group will focus on enhancement of production efficiency and on implementation of supply chain management to drive down production and procurement costs so as to improve the profit margin. Adequate investments will be made in these respect if and when appropriate.

With much dedication, the management has been acquiring valuable experiences in searching for and identifying opportunities with promising business potential. Through inorganic growth by acquisition and organic growth by expansion of existing business and development of new business, the management aims at becoming a successful investor on the one hand and a good quality manufacturer in light industry on the other hand.

In view of the long-term growth of the Group, the management believes that enriching human resources through recruiting competent and experienced senior management staff, who would be able to share their expertise and knowledge with the existing management team from time to time, is vital importance. The main objective is to make the operation platform more solid in order to cope with the future expansion. Together with the strong financial position, the Group is well-positioned to act with high flexibility when investment opportunities with good earnings potential arise.

On behalf of the Board

**Yau Tak Wah, Paul**

*Chairman*

Hong Kong, 26 April 2004



# Management Discussion and Analysis



## FINANCIAL REVIEW

Although the Group faced the adverse business environment in the first-half of the year, the Group still had a slightly increase in its total net asset by HK\$10.1 million compared with last year. Details of the variances are summarised as follows:

	<b>Increase/(Decrease) in the Group's total net assets</b> HK\$ million
Fixed assets	(16.2)
Negative goodwill	18.3
Interests in associates	4.7
Prepaid rental	(0.7)
Rental deposits	(0.6)
Deferred product development costs	0.6
Cash and bank balances and time deposits	134.1
Accounts receivable, bills receivable, prepayments, deposits and other receivables	44.5
Loans receivable and interest receivable on loans	(98.3)
Properties held for sale	(7.3)
Inventories	(23.8)
Accounts payable, accrued liabilities and other payables	(49.8)
Due to associates	(3.9)
Taxation (including tax payable and deferred tax liabilities)	(0.8)
Provision for long service payment	0.2
Minority interests	9.1
Net increase in Group's total net assets	<u>10.1</u>

As at 31 December 2003, the Group's properties in both Hong Kong and the Mainland China were revalued by a professional surveyor in accordance with the open market values. Under this valuation, the property value as a whole was depreciated by approximately HK\$2.3 million of which HK\$1.0 million was charged to profit and loss account and HK\$1.3 million was charged to the property revaluation reserve.

During the year, the Group has invested about HK\$17 million of fixed assets for manufacture of lithium rechargeable battery parts in Shenzhen. All capital expenditure was financed by the internal resources of the Group.

After the open offer of Swank in 2003, a negative goodwill of HK\$5.2 million was arisen. During the year, a total of HK\$23.5 million negative goodwill was recognised as income in which was derived from acquisition of Swank during the year and in 2002 and additional investment in a subsidiary in 2002.



## Management Discussion and Analysis

Owing to the new sub-contracting business on battery parts which required a comparatively longer credit period, in addition to an extended credit for PCB business, the balance of accounts receivable increased by HK\$35.6 million. The balances were partly offset by drop in Swank account receivables by HK\$7.2 million as turnover decreased.

A property held for sale was disposed during the year and the values of the remaining properties on hand were decreased by HK\$3.0 million upon the revaluation performed by a professional surveyor.

Loans receivable and interest receivables on loans in 2002 were substantially repaid and major balance as at 31 December 2003 represented new loans granted.

In view of the tightened inventory control during the year, the balance of inventory was decreased by HK\$23.8 million.

In order to balance the position of accounts receivable, it was unavoidably re-arranging the credit terms on accounts payable that led to an increase in the related balance by about HK\$49.8 million as at the balance sheet date.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, cash and bank balances (including time deposits) maintained by the Group were HK\$456.6 million, representing an increase of HK\$134.1 million compared with the position as at 31 December 2002. On the other hand, the banking facilities of HK\$178 million are available to the Group. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 23.7% as at 31 December 2003, comparing with 20% as at 31 December 2002.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2003, there were no outstanding forward contract in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

### CAPITAL STRUCTURE

During the year, with a view to facilitate raising funds or acquiring assets by way of allotment or placement of shares in future, the Company underwent a capital restructuring exercise whereby the par value of paid up capital of each issued shares was reduced from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 paid up capital on each issued share and the Company would then effect a share consolidation, whereby every 10 issued shares of HK\$0.001 each was consolidated into 1 new share of HK\$0.010 each. The capital restructuring became effective on 30 June 2003 and the then issued share capital of the Company comprised 286,068,644 new shares of HK\$0.010 each.



# Management Discussion and Analysis



## CORPORATE MOVE

On 4 March 2003, the Company, Probest Holdings Inc. (“Probest”), an indirectly wholly-owned subsidiary of the Company and Swank entered into a conditional asset disposal agreement (the “Asset Disposal Agreement”) and a conditional loan restructuring agreement (the “Loan Restructuring Agreement”) to restructure the principal loan of HK\$250 million and the accrued interest due to Probest. Details of the Asset Disposal Agreement and the Loan Restructuring Agreement were set out in the circular to shareholders dated 7 April 2003. Subsequently, these two agreements were terminated on 27 August 2003.

On 3 September 2003, the Company, Probest and Swank entered into a conditional share sale agreement pursuant to which Probest would acquire a 30% equity interest in Profitown Investment Corporation (“Profitown”) and 30% of loan owing by Profitown to Swank at an aggregate consideration of HK\$3 million (the “Share Sale Agreement”). Profitown is a wholly-owned subsidiary and an intermediate holding company of all the operating subsidiaries and associates companies of Swank. On 3 September 2003, the Company, Probest and Swank also entered into a conditional loan settlement agreement pursuant to which Probest agreed to waive the repayment of the outstanding principal loan of HK\$47 million due from Swank and the accrued loan interest thereon since 1 March 2002 up to the effective date of the loan settlement agreement (the “Loan Settlement Agreement”).

Moreover, Swank also proposed to raise not less than HK\$37.7 million before expenses by way of an open offer on the basis of 13 offer shares at HK\$0.013 each for every existing share of HK\$0.01 each in the issued share capital of Swank held by the shareholders, who had addresses in Hong Kong on the register of members of Swank, as at 16 October 2003, being the date to which entitlements under the open offer would be determined (the “Open Offer”). On 3 September 2003, the Company, Probest and Swank also entered into an underwriting agreement pertaining to the Open Offer. Subsequently, net proceeds from the Open Offer of approximately HK\$37.0 million was used to repay partly the loan due to Probest.

The outstanding principal loan due to Probest from Swank was reduced from HK\$250 million to HK\$163 million which shall be repaid by three instalments in accordance with the terms of the promissory note with maturity date of 1 June 2006. The promissory note is unsecured and bears interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Share Sale Agreement, the Loan Settlement Agreement and the Open Offer were completed in November 2003.

Upon completion of the Open Offer, the shareholding of the Company in Swank increased to 83.21%. In order to restore the minimum public float requirement of 25% of Swank shares, on 16 December 2003, Probest entered into a placing agreement with Kingsway Financial Services Group Limited (“SW Kingsway Financial”), a wholly owned subsidiary of SW Kingsway Capital Holdings Limited (“SW Kingsway”). Pursuant to the placing agreement, 412,794,000 Swank shares or approximately 13.21% of the then issued share capital of Swank were placed through SW Kingsway Financial to independent investors at a price of HK\$0.0269 per share or with gross proceed of HK\$11.1 million.



## Management Discussion and Analysis

Furthermore, the Group entered into a sale and purchase agreement with Kingsway Lion Spur Technology Limited (“Kingsway Lion Spur”) and Rich Global Investments Limited (“Rich Global”), both are the wholly owned subsidiaries of SW Kingsway, whereby Probest agreed to sell and Kingsway Lion Spur and Rich Global agreed to purchase 593,724,000 Swank shares at a consideration of HK\$0.0269 per Swank share, totaling HK\$16.0 million (the “S&P Agreement”). The transaction gave rise to a total gain of HK\$16.0 million, of which HK\$7.4 million was booked in year 2003 and HK\$8.6 million will be booked in year 2004. Upon completion of the placing agreement and the S&P Agreement, the Group’s shareholding in Swank was reduced from 83.21% to 51%. In addition, the Group granted an option to Rich Global, whereby Rich Global could purchase 50% interest in Probest at a consideration of HK\$15.7 million within a period of 15 months from the date of an option agreement. Certain conditions need to be satisfied before Rich Global could exercise the option. Should the option be exercised by Rich Global, the Group’s effective shareholding in Swank would further be reduced to 25.5%. The Board considered the transactions would eventually benefit the Group mainly in two ways. Firstly, having a strategic investor like SW Kingsway would help Swank obtain external financing and/or strategic investors in future. As the S&P Agreement was just completed in January 2004, this strategic benefit is yet to be realised. Secondly, it was a good opportunity to realise part of the investment to achieve a satisfactory gain resulting in an increase of the net asset value of the Group.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2003, the Group had approximately 5,350 employees, with more than 5,200 in the Mainland China and about 150 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.



## Biographical Details of Directors and Senior Management



### EXECUTIVE DIRECTORS

**Mr. YAU Tak Wah, Paul** – Chairman, aged 48, is the founder of the Group and is primarily responsible for corporate strategic planning. He holds a bachelor of science degree in mechanical engineering and has more than 20 years' experience in the electronics industry. Before he established the Group, Mr. Yau worked as design engineer in a renowned US electronics company operating in Hong Kong where he gained invaluable experience in production design and established close business relationships with various electronics manufacturers in Hong Kong.

**Ms. LOUIE Mei Po** – Director, aged 36, is responsible for business investment and development of the Group. Ms. Louie holds a master's degree in Business Administration and a bachelor's degree in Social Science from the Chinese University of Hong Kong. Prior to joining the Group, Ms. Louie was the executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She has over ten years' experience in business investment and development. She joined the Group in February 2000.


**Ms. WONG Shin Ling, Irene** – Director, aged 43, is responsible for management and administration of the Group. Ms. Wong has over 12 years of experience in the field of property development and management. Prior to joining the Group, she was an executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She joined the Group in February 2000.

**Mr. TAM Wing Kin** – Director, aged 38, is responsible for finance of the Group. He is a member of The Chartered Institute of Management Accountants, The Association of Chartered Certified Accountants and The Hong Kong Society of Accountants. He is also a Certified Public Accountant. Prior to joining the Group, he worked for an international accountancy firm and two listed companies in Hong Kong. He has over 14 years of experience in accounting field. He joined the Group in February 2000.

**Mr. TAM Ping Wah** – Director, aged 48, has more than 20 years' experience in electronics business. Being a graduate from Simon Fraser University in Canada in 1979, Mr. Tam first worked at a leading electronics company operating in Hong Kong as regional marketing manager and obtained extensive exposure to the North American and European markets. He joined the Group in 1983 and is responsible for the manufacturing and sales operations of the Group's Electronic Products Division.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. NG Wai Hung** – Director, aged 40, is a practicing solicitor and a partner in Lu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies. He frequently advises multinational and Hong Kong corporations on private equity investments, joint ventures as well as regulatory compliance. He joined the Group in March 2000.



## Biographical Details of Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

**Mr. CHEUNG Chung Leung, Richard** – Director, aged 50, has over 20 years of experience as an architect and real estate investment adviser. He is also the Executive Chairman of China SMS Limited. He graduated from the University of Hong Kong with degrees of Bachelor of Arts (Architectural Studies) and Bachelor in Architecture. He is a member of the Hong Kong Institute of Architects and a Registered Architect pursuant to the Architects Registration Ordinance. He joined the Group in March 2000.

### SENIOR MANAGEMENT

**Mr. MA Wing Kuen, Ricky**, aged 44, is the group financial controller and company secretary, responsible for financial, accounting and corporate secretarial functions. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in 1995, he had accumulated more than 12 years' relevant experience in working with an international accounting firm, a major merchant bank and also holding senior financial positions in various trading and manufacturing companies in Hong Kong.

**Mr. HUI Wing Ki**, aged 59, is the operation director of the Group's Electronic Products Division, responsible for manufacturing and engineering functions. He has over 30 years' experience in the electronics industry. Prior to joining the Group in 1996, he was one of the founders in an electronic company listed in Hong Kong.

**Mr. YEUNG Kam Tong**, aged 50, is the director and general manager of E-Top PCB Limited and is responsible for the overall PCB operations of the Group. He holds a bachelor degree in chemical engineering. Prior to joining the Group in 1991, he worked for several PCB manufacturers at management level and had over 13 years' operation and management experience in PCB business.

**Mr. WONG Tak Chung**, aged 37, is the chief operation officer responsible for the Group's sales and marketing activities relating to electronic products. Before he joined the Group in 1993, he worked as merchandising manager with a sizeable electronic consumer products manufacturer for 2 years. He holds a bachelor degree in economics.

**Mr. Paul NG**, aged 49, is the senior marketing manager responsible for the Group's sales and marketing activities relating to electronic products. He has over 20 years' experience in sales and marketing. He joined the Group in 1988.

**Mr. LEUNG Hung Tat**, aged 38, is the assistant general manager, responsible for the manufacturing operations of the Group's Electronic Products Division. Prior to joining the Group in 1995, he worked as quality manager with an electronic manufacturer listed in Hong Kong for 5 years.

**Mr. FONG Wing Hon**, aged 38, is the R&D manager, responsible for the Group's product design and development and technical support. He holds a bachelor degree in electronic engineering and has over 10 years' experience in production engineering. He joined the Group in 1996.



## Report of the Directors



The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### **Principal activities**

The principal activity of the Company is investment holding. The Group's principal activities consisted of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards, the trading and distribution of electronic components and parts, the trading of listed equity investments, the provision of loan financing and the manufacture and sale of optical products. There were no significant changes in the nature of the Group's principal activities during the year.

### **Results and dividends**

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 72.

The directors do not recommend the payment of any dividend in respect of the year.

## Summary financial information

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities, and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
RESULTS					
TURNOVER	<b>722,782</b>	741,077	544,174	659,807	601,609
PROFIT/(LOSS) AFTER FINANCE COSTS	<b>2,808</b>	60,560	28,462	36,943	(38,603)
Share of profits less losses of associates	<b>1,727</b>	5,797	–	–	–
PROFIT/(LOSS) BEFORE TAX	<b>4,535</b>	66,357	28,462	36,943	(38,603)
Tax	<b>(1,778)</b>	(4,675)	(3,079)	(5,424)	(6,265)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>2,757</b>	61,682	25,383	31,519	(44,868)
Minority interests	<b>8,941</b>	1,165	5,734	976	(30)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>11,698</b>	62,847	31,117	32,495	(44,898)

# Report of the Directors

## Summary financial information (continued)

	As at 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
FIXED ASSETS	<b>185,769</b>	201,955	138,811	135,800	132,476
NEGATIVE GOODWILL	<b>(40,346)</b>	(58,671)	–	–	–
INTERESTS IN ASSOCIATES	<b>35,581</b>	30,894	–	–	42
PREPAID RENTAL	<b>3,377</b>	4,114	4,851	5,588	6,324
RENTAL DEPOSITS	<b>388</b>	972	517	397	–
DEFERRED PRODUCT DEVELOPMENT COSTS	<b>4,783</b>	4,195	4,459	4,131	3,684
CURRENT ASSETS	<b>725,510</b>	676,241	575,477	421,444	252,277
TOTAL ASSETS	<b>915,062</b>	859,700	724,115	567,360	394,803
CURRENT LIABILITIES	<b>191,046</b>	136,492	87,647	146,674	191,152
PROVISION FOR LONG SERVICE PAYMENTS	<b>1,243</b>	1,465	–	–	–
DEFERRED TAX LIABILITIES	<b>1,433</b>	1,433	1,433	1,433	600
TOTAL LIABILITIES	<b>193,722</b>	139,390	89,080	148,107	191,752
MINORITY INTERESTS	<b>23,125</b>	32,233	36,443	42,177	8,836
NET ASSETS	<b>698,215</b>	688,077	598,592	377,076	194,215

### Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

### Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements.

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.



## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable reserves

At 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$402,771,000. In addition, the Company's share premium account, in the amount of HK\$200,556,000, may be distributed in the form of fully paid bonus shares.

### Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 10% of the total sales. Purchases from the Group's five largest suppliers accounted for 31% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

## Directors

The directors of the Company during the year were:

### Executive directors:

Mr. Yau Tak Wah, Paul (*Chairman*)  
Ms. Louie Mei Po  
Ms. Wong Shin Ling, Irene  
Mr. Tam Wing Kin  
Mr. Tam Ping Wah

### Independent non-executive directors:

Mr. Ng Wai Hung  
Mr. Cheung Chung Leung, Richard

In accordance with clause 87 of the Company's bye-laws, Mr. Yau Tak Wah, Paul and Mr. Tam Wing Kin will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.



# Report of the Directors



## Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Annual Report.

## Directors' service contracts

Mr. Yau Tak Wah, Paul and Mr. Tam Ping Wah have entered into service contracts with the Company for a fixed term of three years from 26 April 2000 to 25 April 2003, which thereafter are terminable by either party upon the giving of six months' notice. Upon termination, the service contracts have been renewed automatically for successive terms of three years subject to termination by either party giving not less than six months' notice in writing to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment other than statutory compensation.

## Directors' interests and short positions in shares and underlying shares

At 31 December 2003, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Director	Notes	Through controlled corporation	Percentage of the Company's issued share capital
Mr. Yau Tak Wah, Paul	1	14,847,400*	5.2
Mr. Tam Ping Wah	2	8,000*	–

Notes:

1. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
2. These shares were held through Strong Trend International Limited, a company beneficially owned by Mr. Tam Ping Wah.

\* *The number of shares were adjusted in accordance with the capital reorganisation which took effect on 30 June 2003. Further details are set out in note 26 to the financial statements.*

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## Directors' rights to acquire shares

Save as disclosed in the share option scheme disclosures in note 27 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2003, the following interest of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Percentage of the Company's issued share capital
Winspark Venture Limited	1	Directly beneficially owned	165,835,963*	58.0
Mr. Yau Tak Wah, Paul	2,3	Through a controlled corporation	14,847,400*	5.2

Notes:

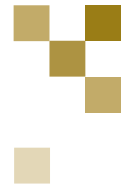
1. The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.
2. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
3. This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

\* *The number of shares were adjusted in accordance with the capital reorganisation which took effect on 30 June 2003. Further details are set out in note 26 to the financial statements.*

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.



# Report of the Directors



## **Purchase, redemption or sale of listed securities of the Company**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **Connected party transactions**

Details of the connected party transactions are set out in note 32 to the financial statements.

## **Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

## **Audit committee**

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2003 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and legal requirements and that adequate disclosures have been made.

## **Code of best practice**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws.

## **Auditors**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Yau Tak Wah, Paul**

*Chairman*

Hong Kong  
26 April 2004



安永會計師事務所

To the members

**Tomorrow International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 24 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

Hong Kong  
26 April 2004



# Consolidated Profit and Loss Account

Year ended 31 December 2003



	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	<b>722,782</b>	741,077
Cost of sales		<b>(621,877)</b>	(578,723)
Gross profit		<b>100,905</b>	162,354
Other revenue		<b>11,652</b>	13,830
Negative goodwill recognised as income		<b>23,550</b>	24,784
Provision against loans receivable		<b>(20)</b>	(1,480)
Gain on disposal of partial interest in Swank		<b>18,407</b>	3,481
Surplus/(deficit) on revaluation of leasehold land and buildings, net		<b>(1,015)</b>	22
Provision for properties held for sale		<b>(2,967)</b>	(2,200)
Distribution costs		<b>(27,194)</b>	(23,642)
Administrative expenses		<b>(109,870)</b>	(113,632)
Other operating expenses		<b>(10,640)</b>	(2,957)
PROFIT FROM OPERATING ACTIVITIES	6	<b>2,808</b>	60,560
Share of profits less losses of associates		<b>1,727</b>	5,797
PROFIT BEFORE TAX		<b>4,535</b>	66,357
Tax	9	<b>(1,778)</b>	(4,675)
PROFIT BEFORE MINORITY INTERESTS		<b>2,757</b>	61,682
Minority interests		<b>8,941</b>	1,165
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<b>11,698</b>	62,847
EARNINGS PER SHARE	11		
Basic		<b>4.09 cents</b>	22.30 cents
Diluted		<b>N/A</b>	22.24 cents



# Consolidated Balance Sheet

31 December 2003



	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	185,769	201,955
Negative goodwill	13	(40,346)	(58,671)
Interests in associates	15	35,581	30,894
Prepaid rental	16	3,377	4,114
Rental deposits		388	972
Deferred product development costs	17	4,783	4,195
		<b>189,552</b>	183,459
<b>CURRENT ASSETS</b>			
Cash and bank balances		309,397	75,329
Time deposits		147,192	146,025
Pledged deposits	18	–	101,056
Accounts receivable	19	140,416	104,856
Bills receivable		1,881	1,905
Loans receivable	20	12,321	110,534
Interest receivable on loans		12	122
Prepayments, deposits and other receivables		30,681	21,675
Properties held for sale	21	5,700	13,000
Inventories	22	77,910	101,739
		<b>725,510</b>	676,241
<b>CURRENT LIABILITIES</b>			
Accounts payable	23	119,275	71,118
Accrued liabilities and other payables		37,622	35,981
Due to associates	15	12,781	8,848
Tax payable		21,368	20,545
		<b>191,046</b>	136,492
<b>NET CURRENT ASSETS</b>		<b>534,464</b>	539,749
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>724,016</b>	723,208
<b>NON-CURRENT LIABILITIES</b>			
Provision for long service payments	24	1,243	1,465
Deferred tax liabilities	25	1,433	1,433
		<b>2,676</b>	2,898
<b>MINORITY INTERESTS</b>		<b>23,125</b>	32,233
		<b>698,215</b>	688,077



# Consolidated Balance Sheet

31 December 2003



	Notes	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<hr/>			
CAPITAL AND RESERVES			
Share capital	26	<b>2,861</b>	286,069
Reserves	28(a)	<b>695,354</b>	402,008
		<b>698,215</b>	688,077
<hr/> <hr/>			

**Yau Tak Wah, Paul**  
*Director*

**Louie Mei Po**  
*Director*

# Consolidated Statement of Changes In Equity

Year ended 31 December 2003

	Reserves									
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Contributed surplus	Capital redemption reserve	Property revaluation reserve	Retained profits	Total reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	268,269	192,518	913	801	-	77	1,321	134,693	330,323	598,592
Arising from revaluation of leasehold land and buildings	-	-	-	-	-	-	(31)	-	(31)	(31)
Exchange realignment	-	-	858	-	-	-	-	-	858	858
Exchange realignment shared by minority interests	-	-	(27)	-	-	-	-	-	(27)	(27)
Net gains and losses not recognised in the profit and loss account	-	-	831	-	-	-	(31)	-	800	800
Issue of shares	17,800	8,900	-	-	-	-	-	-	8,900	26,700
Share issue expenses	-	(862)	-	-	-	-	-	-	(862)	(862)
Profit for the year	-	-	-	-	-	-	-	62,847	62,847	62,847
At 31 December 2002 and 1 January 2003	286,069	200,556	1,744	801	-	77	1,290	197,540	402,008	688,077
Arising from revaluation of leasehold land and buildings	-	-	-	-	-	-	(1,290)	-	(1,290)	(1,290)
Exchange realignment	-	-	(437)	-	-	-	-	-	(437)	(437)
Exchange realignment shared by minority interests	-	-	167	-	-	-	-	-	167	167
Net gains and losses not recognised in the profit and loss account	-	-	(270)	-	-	-	-	-	(270)	(270)
Capital reorganisation (note 26)	(283,208)	-	-	-	283,208	-	-	-	283,208	-
Profit for the year	-	-	-	-	-	-	-	11,698	11,698	11,698
At 31 December 2003	2,861	200,556	1,474	801	283,208	77	-	209,238	695,354	698,215
Share capital and reserves retained by:										
Company and subsidiaries	2,861	200,556	1,474	801	283,208	77	-	202,865	688,981	691,842
Associates	-	-	-	-	-	-	-	6,373	6,373	6,373
31 December 2003	2,861	200,556	1,474	801	283,208	77	-	209,238	695,354	698,215
Company and subsidiaries	286,069	200,556	1,744	801	-	77	1,290	192,743	397,211	683,280
Associates	-	-	-	-	-	-	-	4,797	4,797	4,797
31 December 2002	286,069	200,556	1,744	801	-	77	1,290	197,540	402,008	688,077

# Consolidated Cash Flow Statement

Year ended 31 December 2003

Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	<b>4,535</b>	66,357
Adjustments for:		
Deficit/(surplus) on revaluation of leasehold land and buildings	<b>1,015</b>	(22)
Provision for properties held for sale	<b>2,967</b>	2,200
Share of profits less losses of associates	<b>(1,727)</b>	(5,797)
Interest income on bank deposits	<b>(3,621)</b>	(5,444)
Dividend received from listed investments	–	(12)
Negative goodwill recognised as income	<b>(23,550)</b>	(24,784)
Gain on disposal of partial interest in Swank	<b>(18,407)</b>	(3,481)
Depreciation	<b>34,836</b>	32,312
Amortisation of prepaid rental	<b>737</b>	737
Amortisation of deferred product development costs	<b>1,189</b>	1,110
Provision for doubtful accounts receivable	<b>8,021</b>	569
Provision against inventories	<b>12,397</b>	134
Provision against loans receivable	<b>20</b>	1,480
Loss on disposal of fixed assets	<b>118</b>	1,588
Loss on disposal of properties held for sales	<b>240</b>	–
Exchange differences	<b>(437)</b>	862
Operating profit before working capital changes	<b>18,333</b>	67,809
Additions to deferred product development costs	<b>(1,777)</b>	(846)
Decrease in balances with associates, net	<b>822</b>	3,616
Increase in accounts receivable	<b>(43,581)</b>	(12,751)
Decrease in bills receivable	<b>24</b>	2,335
Decrease/(increase) in loans receivable	<b>98,193</b>	(110,553)
Decrease in interest receivable on loans	<b>110</b>	163
Decrease/(increase) in prepayments, deposits and other receivables	<b>(9,006)</b>	1,924
Decrease in short term investments	–	603
Decrease/(increase) in inventories	<b>11,432</b>	(14,570)
Increase/(decrease) in accounts payable	<b>48,157</b>	(11,669)
Increase in accrued liabilities and other payables	<b>1,641</b>	1,739
Increase/(decrease) in provision for long service payments	<b>(222)</b>	465
Cash generated from/(used in) operations	<b>124,126</b>	(71,735)

# Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Cash generated from/(used in) operations		<b>124,126</b>	(71,735)
Interest received		<b>3,621</b>	5,444
Hong Kong profits tax paid		<b>(804)</b>	(985)
Overseas tax paid		–	(240)
Net cash inflow/(outflow) from operating activities		<b>126,943</b>	(67,516)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from listed investments		–	12
Purchases of fixed assets		<b>(21,241)</b>	(21,425)
Proceeds from disposals of properties held for sale		<b>4,093</b>	–
Proceeds from Swank's issue of shares		<b>5,225</b>	–
Proceeds from disposals of fixed assets		<b>168</b>	4
Payment of rental deposits		–	(455)
Refund of rental deposits		<b>584</b>	–
Acquisition of Swank	32	–	8,652
Proceeds from disposal of partial interest in Swank	14	<b>18,407</b>	3,481
Net cash inflow/(outflow) from investing activities		<b>7,236</b>	(9,731)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		–	26,700
Share issue expenses		–	(862)
Net cash inflow from financing activities		–	25,838
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>134,179</b>	(51,409)
Cash and cash equivalents at beginning of year		<b>322,410</b>	373,819
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>456,589</b>	322,410
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<b>309,397</b>	75,329
Non-pledged time deposits with original maturity of less than three months when acquired		<b>147,192</b>	146,025
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities		–	101,056
		<b>456,589</b>	322,410



# Balance Sheet

31 December 2003



	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	56	88
Interests in subsidiaries	14	298,580	421,037
Rental deposits		–	517
		<b>298,636</b>	421,642
<b>CURRENT ASSETS</b>			
Cash and bank balances		178,375	315
Time deposits		131,000	54,411
Pledged deposits	18	–	101,056
Prepayments, deposits and other receivables		708	181
Tax recoverable		14	14
		<b>310,097</b>	155,977
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		2,228	1,882
		<b>307,869</b>	154,095
<b>NET CURRENT ASSETS</b>			
		<b>606,505</b>	575,737
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>NON-CURRENT LIABILITY</b>			
Provision for long service payments	24	240	240
		<b>606,265</b>	575,497
<b>CAPITAL AND RESERVES</b>			
Share capital	26	2,861	286,069
Reserves	28(b)	603,404	289,428
		<b>606,265</b>	575,497

**Yau Tak Wah, Paul**  
Director

**Louie Mei Po**  
Director

## 1. Corporate Information

The principal activity of the Company is investment holding. During the year, the Group's principal activities consisted of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards ("PCBs"), the trading and distribution of electronic components and parts, the trading of listed equity investments, the provision of loan financing, and the manufacture and sale of optical products. There were no significant change in the nature of the Group's principal activities during the year.

## 2. Impact of Revised Statement of Standard Accounting Practice

The following revised Statement of Standard Accounting Practice ("SSAP") is effective for the first time for the current year's financial statements:

- SSAP 12 (Revised) : "Income taxes"

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

## 3. Summary of Significant Accounting Policies

### Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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 fixed assets and short term investments 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 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates 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.



# Notes to Financial Statements

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## 3. Summary of Significant Accounting Policies (continued)

### 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 interests in subsidiaries are stated at cost less any impairment losses.

### 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 Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) an associate, if the Group 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;
- (c) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company; and
- (d) a long term investment, if the Group 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.

## 3. Summary of Significant Accounting Policies (continued)

### 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 the net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

### Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

### Negative goodwill

Negative goodwill arising on acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.



# Notes to Financial Statements

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## 3. Summary of Significant Accounting Policies (continued)

### Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

### 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.

### 3. Summary of Significant Accounting Policies (continued)

#### Fixed assets and depreciation

Fixed assets 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 the fixed asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held under medium term leases	Over the remaining lease terms
Buildings	4%
Leasehold improvements	5 – 50%
Plant and machinery	6.67 – 20%
Furniture, fixtures and office equipment	10 – 20%
Motor vehicles	20%

Changes in the values of fixed assets resulting from revaluations are dealt with, on an individual asset basis, as movements in the asset revaluation reserve. Deficits arising from revaluation, to the extent they cannot be offset against the revaluation surplus in respect of the same asset, are charged to the profit and loss account. Any subsequent revaluation surplus is credited to profit and loss account to the extent of the deficit previously charged.

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. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.



# Notes to Financial Statements

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## 3. 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 reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line method over the commercial lives of the underlying products not exceeding seven years, commencing from the date when the products are put into commercial production.

### Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date on an individual investment basis. Fair values are determined by reference to quoted market prices net of any discount which is deemed necessary by the directors to reflect the potential impact of the disposal of such shares in the case of substantial shareholdings. The gains or losses arising from changes in the fair value of a security are credited to or charged to the profit and loss account in the period in which they arise.

### Properties held for sale

Properties held for sale are stated at the lower of carrying amount and net realisable value.

### Inventories

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

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

### 3. Summary of Significant Accounting Policies (continued)

#### 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.

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.



# Notes to Financial Statements

31 December 2003



## 3. Summary of Significant Accounting Policies (continued)

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on the straight-line basis over the lease terms.

### Employee benefits

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long services payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

#### *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 employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme operated by the government of the PRC.

## 3. Summary of Significant Accounting Policies (continued)

### Employee benefits (continued)

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### 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.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, 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 bank balances and time deposits represent assets which are not restricted as to use.



# Notes to Financial Statements

31 December 2003



## 3. Summary of Significant Accounting Policies (continued)

### 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, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the sale of listed equity investments, on the trade day;
- (d) from the sale of property, when the legally binding sales contract is signed;
- (e) dividends, when the shareholders' right to receive payment has been established; and
- (f) management fee, when the services are rendered.

### 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 consolidated 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 to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to 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 to Hong Kong dollars at the weighted average exchange rates for the year.

## 4. 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 the other business segments. Summary details of the business segments are as follows:

- (a) the electronic products segment consists of the manufacture and sale of electronic products;
- (b) the PCBs segment consists of the manufacture and sale of PCBs;
- (c) the electronic components and parts segment consists of the trading and distribution of electronic components and parts;
- (d) the listed equity investments segment consists of the trading of listed equity investments;
- (e) the provision of finance segment consists of the provision of loan financing services; and
- (f) the optical products segment consists of the manufacture and sale of optical products.

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.

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

# Notes to Financial Statements

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## 4. Segment Information (continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Optical products		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 revenue:																
Sales to external customers	398,361	434,371	130,901	96,940	2	138	870	667	412	1,243	192,236	207,718	-	-	722,782	741,077
Inter-segment sales	-	-	11,458	9,932	21,071	38,941	-	-	-	-	-	-	(32,529)	(48,873)	-	-
Other revenue	1,904	1,443	1,412	2,110	25	665	421	779	-	30	3,167	3,487	-	-	6,929	8,514
Total	400,265	435,814	143,771	108,982	21,098	39,744	1,291	1,446	412	1,273	195,403	211,205	(32,529)	(48,873)	729,711	749,591
Segment results	17,027	39,250	(18,342)	(1,302)	673	2,336	(7,297)	(6,960)	(9,177)	(11,448)	(21,673)	8,712	(60)	(51)	(38,849)	30,537
Interest, dividend income and unallocated gains															4,723	5,316
Negative goodwill recognised as income															23,550	24,784
Gain on disposal of partial interest in Swank															18,407	3,481
Unallocated expenses															(5,023)	(3,558)
Profit from operating activities															2,808	60,560
Share of profits less losses of associates															1,727	5,797
Profit before tax															4,535	66,357
Tax:																
Company and subsidiaries															(1,627)	(3,675)
Associates															(151)	(1,000)
Profit before minority interests															2,757	61,682
Minority interests															8,941	1,165
Net profit from ordinary activities attributable to shareholders															11,698	62,847

# Notes to Financial Statements

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## 4. Segment Information (continued)

### (a) Business segments (continued)

Group

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Optical products		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	194,155	198,603	129,691	104,949	5,202	11,301	6,675	54,082	57,953	161,153	166,971	126,757	(5,518)	(5,677)	555,129	651,168
Interests in associates	-	-	-	-	-	-	-	-	-	-	35,581	30,894	-	-	35,581	30,894
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	324,352	177,638
Total assets															915,062	859,700
Segment liabilities	44,962	43,300	66,800	26,926	3,341	1,723	96	179	83	40	56,997	46,832	(5,457)	(5,626)	166,822	113,374
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,900	26,016
Total liabilities															193,722	139,390
Other segment information:																
Depreciation and amortisation	13,100	11,197	9,760	9,666	-	-	-	-	-	-	10,980	10,604	-	-	33,840	31,467
Unallocated amounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,922	2,692
															36,762	34,159
Capital expenditure	18,723	16,784	2,198	539	-	-	-	-	-	-	1,053	2,767	-	-	21,974	20,090
Unallocated amounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,044	2,181
															23,018	22,271
Provision against loans receivable	-	-	-	-	-	-	-	-	20	1,480	-	-	-	-	20	1,480
Provision for properties held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,967	2,200
Provision for doubtful accounts receivable	-	196	2,947	-	-	-	-	-	-	-	5,074	373	-	-	8,021	569
Provision against inventories/ (write-back of provision against inventories)	(97)	91	5,326	-	-	(1,369)	-	-	-	-	7,168	1,412	-	-	12,397	134
Deficit on revaluation of leasehold land and buildings	(643)	-	-	-	-	-	-	-	-	-	-	-	-	-	(643)	-
Unallocated amounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(372)	22
															(1,015)	22
Deficit on revaluation recognised directly in equity	(1,290)	(31)	-	-	-	-	-	-	-	-	-	-	-	-	(1,290)	(31)

# Notes to Financial Statements

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## 4. Segment Information (continued)

### (b) Geographical segments

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

#### Group

	Europe		North America		Hong Kong		Japan		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:														
Sales to external customers	100,032	115,013	231,592	264,964	197,090	162,434	150,401	142,741	43,667	55,925	-	-	722,782	741,077

#### Group

	Hong Kong		Mainland PRC		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other segment information:										
Segment assets	577,418	516,705	254,868	312,031	47,195	70	-	-	879,481	828,806
Interests in associates	(9,376)	(7,050)	44,796	37,788	161	156	-	-	35,581	30,894
									915,062	859,700
Capital expenditure	1,262	4,571	21,756	17,700	-	-	-	-	23,018	22,271

## 5. Turnover

Turnover represents the invoiced value of goods sold, net of returns and allowances, the proceeds from sales of listed equity investments and the interest income from the provision of loan financing. Revenue from the following activities has been included in turnover:

	2003 HK\$'000	2002 HK\$'000
Manufacture and sale of electronic products	398,361	434,371
Manufacture and sale of PCBs	130,901	96,940
Trading and distribution of electronic components and parts	2	138
Trading of listed equity investments	870	667
Provision of loan financing	412	1,243
Manufacture and sale of optical products	192,236	207,718
	722,782	741,077

# Notes to Financial Statements

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## 6. Profit from Operating Activities

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

	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	<b>621,192</b>	578,121
Depreciation	<b>34,836</b>	32,312
Amortisation of prepaid rental	<b>737</b>	737
Amortisation of deferred product development costs	<b>1,189</b>	1,110
Minimum lease payments under operating leases:		
Land and buildings	<b>9,673</b>	8,836
Office equipment	<b>269</b>	667
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	<b>119,856</b>	111,094
Bonuses	–	6,425
Pension contributions	<b>2,261</b>	2,216
Less: Forfeited contributions	<b>(393)</b>	(641)
Net pension contributions*	<b>1,868</b>	1,575
	<b>121,724</b>	119,094
Auditors' remuneration:		
Current year provision	<b>1,930</b>	2,380
Prior year underprovision/(overprovision)	<b>65</b>	(100)
	<b>1,995</b>	2,280
Provision for doubtful accounts receivable**	<b>8,021</b>	569
Provision against inventories	<b>12,397</b>	134
Provision against loans receivable	<b>20</b>	1,480
Provision for long service payments	–	753
Negative goodwill recognised as income	<b>(23,550)</b>	(24,784)
Loss on disposal of fixed assets	<b>118</b>	1,588
Loss on disposal of properties held for sales	<b>240</b>	–
Exchange losses/(gains), net	<b>276</b>	(441)
Interest income on bank deposits	<b>(3,621)</b>	(5,444)
Net gains on disposal of listed equity investments	<b>(185)</b>	(64)
Gain on disposal of partial interest in Swank	<b>(18,407)</b>	(3,841)
Dividend income from listed investments	–	(12)

# Notes to Financial Statements

31 December 2003

## 6. Profit from Operating Activities (continued)

The cost of inventories sold includes HK\$95,087,000 (2002: HK\$74,230,000) relating to direct staff costs, provision against inventories, amortisation of prepaid rental, amortisation of deferred product development costs, operating lease rentals of land and buildings and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

\* At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

\*\* The provision for doubtful accounts receivable for the current and last years is included in "Other operating expenses" on the face of the consolidated profit and loss account.

## 7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	330	330
Other emoluments:		
Executive:		
Salaries and other benefits	8,229	8,229
Bonuses	–	6,425
Pension contributions	369	374
Independent non-executive:		
Salaries and other benefits	–	–
	<b>8,928</b>	<b>15,358</b>

The remuneration of the directors fell within the following bands:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$5,500,001 – HK\$6,000,000	–	2
	<b>7</b>	<b>7</b>

# Notes to Financial Statements

31 December 2003

## 7. Directors' Remuneration (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

## 8. Five Highest Paid Employees

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	3,210	3,210
Pension contributions	56	56
	<b>3,266</b>	<b>3,266</b>

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
	<b>2</b>	<b>2</b>

# Notes to Financial Statements

31 December 2003

## 9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

	Group	
	2003 HK\$'000	2002 HK\$'000
The PRC:		
Hong Kong:		
Current year provision	1,524	3,690
Under/(over)provision in prior year	80	(228)
Mainland China	23	213
	<b>1,627</b>	3,675
Share of tax attributable to associates	151	1,000
Total tax charge for the year	<b>1,778</b>	4,675

In accordance with the applicable enterprise income tax law of the PRC, the Group's subsidiaries registered in Mainland China, Dongguan Yifu Circuit Board Factory ("Yifu") and Gaojin Electronics (Shenzhen) Co., Ltd. ("Gaojin"), are exempt from income tax for their first two profitable years of operations and are entitled to 50% relief on the income tax that would otherwise be charged for the succeeding three years.

The foregoing tax concession for Yifu has expired. Pursuant to a further tax concession granted in the current year, the income tax rate applicable to Yifu was reduced from the standard rate of 24% to 15% for 2003 (2002: 15%). Gaojin began its first profitable year in the year ended 31 December 2002. The income tax rate applicable to Gaojin is 15 % per annum.

# Notes to Financial Statements

31 December 2003

## 9. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, 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	
	2003	2002
	HK\$'000	HK\$'000
Profit before tax	<b>4,535</b>	66,357
Tax at the statutory tax rate	<b>794</b>	10,617
Adjustments in respect of current tax of previous years	<b>80</b>	(228)
Income not subject to tax	<b>(945)</b>	(6,291)
Expenses not deductible for tax	<b>2,325</b>	657
Tax losses utilised from previous years	<b>(476)</b>	(80)
Tax charge at the Group's effective rate	<b>1,778</b>	4,675

## 10. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK\$30,768,000 (2002: HK\$15,058,000).

## 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\$11,698,000 (2002: HK\$62,847,000) and the weighted average of 286,068,644 (2002: 281,874,672 as restated) ordinary shares in issue during the year.

A diluted earnings per share for the year ended 31 December 2003 has not been disclosed as no diluting events existed during the year. For the year ended 31 December 2002, the calculation of diluted earning per share was based on the net profit attributable to shareholders for that year of HK\$62,847,000 and the weighted average of 282,551,036 ordinary shares in issue during that year as adjusted for the capital reorganisation which took effect on 30 June 2003, further details are set out in note 26 to the financial statements.

The comparative basic and diluted earnings per share has been adjusted to reflect the capital reorganisation, as further detailed in note 26 to the financial statements.

# Notes to Financial Statements

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## 12. Fixed Assets

### Group

	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
At beginning of year	38,300	37,563	172,878	44,585	4,765	298,091
Additions	–	8,199	8,976	3,933	133	21,241
Disposals	–	(91)	(806)	(283)	(1,231)	(2,411)
Deficit on revaluation	(3,400)	–	–	–	–	(3,400)
At 31 December 2003	34,900	45,671	181,048	48,235	3,667	313,521
Accumulated depreciation:						
At beginning of year	–	14,209	67,240	11,387	3,300	96,136
Provided during the year	1,095	5,363	19,399	8,519	460	34,836
Disposals	–	(91)	(612)	(191)	(1,231)	(2,125)
Write-back on revaluation	(1,095)	–	–	–	–	(1,095)
At 31 December 2003	–	19,481	86,027	19,715	2,529	127,752
Net book value:						
At 31 December 2003	34,900	26,190	95,021	28,520	1,138	185,769
At 31 December 2002	38,300	23,354	105,638	33,198	1,465	201,955
An analysis of cost or valuation:						
At cost	–	45,671	181,048	48,235	3,667	278,621
At 2003 valuation	34,900	–	–	–	–	34,900
	34,900	45,671	181,048	48,235	3,667	313,521

# Notes to Financial Statements

31 December 2003

## 12. Fixed Assets (continued)

### Company

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost:			
At beginning of year and at 31 December 2003	13	144	157
Accumulated depreciation:			
At beginning of year	5	64	69
Provided during the year	3	29	32
At 31 December 2003	8	93	101
Net book value:			
At 31 December 2003	5	51	56
At 31 December 2002	8	80	88

The analysis of the Group's leasehold land and buildings at 31 December 2003 is as follows:

	At valuation HK\$'000
Medium term leasehold land and buildings situated in Mainland PRC	23,700
Medium term leasehold land and buildings situated in Hong Kong	11,200
	34,900

The leasehold land and buildings have been valued on an open market value basis, based on their existing use by B.I. Appraisals Limited, an independent firm of professional valuers, on 31 December 2003 at HK\$34,900,000. Revaluation deficits of HK\$1,015,000 and HK\$1,290,000 resulting from these valuations have been debited to profit and loss account and charged to the property revaluation reserve, respectively.

Had the Group's land and buildings stated at valuation been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$40,848,000 (2002: HK\$41,957,000).

Certain of the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group. The net book values of the pledged assets included in the total amount of fixed assets at 31 December 2003 amounted to HK\$11,200,000 (2002: HK\$12,000,000).

# Notes to Financial Statements

31 December 2003

## 13. Negative Goodwill

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of Swank International Manufacturing Company Limited ("Swank") and additional investment in Electronics Tomorrow Manufactory Inc. in 2002, are as follows:

	<b>Group</b> HK\$'000
Cost:	
At 1 January 2003	83,455
Addition arising from Swank	5,225
At 31 December 2003	<u>88,680</u>
Accumulated recognition as income:	
At 1 January 2003	24,784
Recognition as income during the year	23,550
At 31 December 2003	<u>48,334</u>
Net book value:	
At 31 December 2003	<u>40,346</u>
At 31 December 2002	<u>58,671</u>

## 14. Interests in Subsidiaries

	<b>2003</b> HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<b>93,316</b>	93,316
Due from subsidiaries	<b>244,045</b>	366,810
Due to subsidiaries	<b>(153)</b>	(461)
	<b>337,208</b>	459,665
Provisions for impairment	<b>(38,628)</b>	(38,628)
	<b>298,580</b>	421,037

The balances with the subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

# Notes to Financial Statements

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## 14. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Active Base Limited	Hong Kong	HK\$2	100%	100%	Provision of loan financing
Connion Limited	Hong Kong	HK\$2	100%	100%	Securities investment and property holding
E-Top PCB Limited	Hong Kong	HK\$100	65%	65%	Trading of printed circuit boards
Eastec Purchasing Limited	The British Virgin Islands/ Japan	US\$1	100%	100%	Trading of electronic components and parts
Eastec Technology Limited	Hong Kong	HK\$2	100%	100%	Trading of electronic components and parts
Electronics Tomorrow International Limited	The British Virgin Islands	US\$600	100%	100%	Investment holding
Electronics Tomorrow Limited	Hong Kong	HK\$500,000	100%	100%	Manufacture and sale of electronic products
Electronics Tomorrow Manufactory Inc.	The British Virgin Islands	US\$257	65%	65%	Investment holding

# Notes to Financial Statements

31 December 2003

## 14. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Fortune Dynamic Group Corp. ("Fortune Dynamic")	The British Virgin Islands	US\$1	100%	100%	Investment holding
Good Order International Inc.	The British Virgin Islands	US\$100	100%	100%	Investment holding
Issegon Company Limited	Hong Kong	HK\$300,000	100%	100%	Property holding
Master Base Limited	The British Virgin Islands	US\$1	100%	100%	Investment holding
Maxwood Limited	Hong Kong	HK\$2	100%	100%	Securities investment
Plentiful Light Ltd.	The British Virgin Islands/ The PRC	US\$100	65%	65%	Manufacture of printed circuit boards
Probest Holdings Inc. ("Probest")	The British Virgin Islands	US\$1	100%	100%	Investment holding
Dongguan Yifu Circuit Board Factory ("Yifu") (i)	The PRC	HK\$64,160,000	55%	55%	Manufacture of printed circuit boards
Gaojin Electronics (Shenzhen) Co., Ltd. ("Gaojin") (ii)	The PRC	US\$5,000,000	100%	100%	Manufacture of electronic products
Dongguan De Bao Optical Co., Ltd. ("De Bao") (iv), (vii)	The PRC	HK\$58,550,910	31%	29%	Manufacture of multi-coating lenses

# Notes to Financial Statements

31 December 2003

## 14. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell") (v), (vii)	The PRC	HK\$62,504,800	51%	48%	Manufacture of optical products
Global Origin Limited (vii)	Hong Kong	HK\$75,000,000	55%	52%	Investment holding
Profit Trend International Limited (iii)	Hong Kong	HK\$1,000,000	31%	29%	Investment holding
Prowin Commercial & Industrial Limited (vii)	Hong Kong	HK\$2	61%	58%	Property holding in the PRC
Shenzhen Henggang Swank Optical Industrial Co., Ltd. ("Henggang") (iii), (vi)	The PRC	US\$30,000,000	49%	47%	Manufacture of optical products
Swank International Manufacturing Company Limited (vii)	Hong Kong	HK\$31,249,000	61%	58%	Investment holding
Swank International Optical Company Limited (vii)	Hong Kong	HK\$100,000	61%	58%	Trading of optical products


Other than Electronics Tomorrow International Limited, Fortune Dynamic Group Corp. and Master Base Limited, which are held directly by the Company, all subsidiaries are held indirectly by the Company.

- (i) Yifu is a Sino-foreign owned joint venture enterprise under the PRC law.
- (ii) Gaojin is registered as a wholly foreign owned enterprise under the PRC law.
- (iii) The Company has the power to cast the majority of votes at meetings of the board of directors of these entities and therefore they are regarded as subsidiaries of the Company.



# Notes to Financial Statements

31 December 2003



## 14. Interests in Subsidiaries (continued)

- (iv) De Bao is registered as a wholly foreign owned enterprise under the PRC law. The registered capital of De Bao is HK\$118,100,000. At the balance sheet date, plant and machinery amounting to HK\$58,550,910 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of approximately HK\$59,549,090 was due for contribution on 18 March 1999 in accordance with De Bao's articles of association. The Group has been in discussion with the relevant authorities to modify the original terms of the articles of association, including the amount of total registered capital. Up to the date of this Annual Report, the Group has not yet obtained the approval from the relevant authorities.
- (v) Dongguan Hamwell is a Sino-foreign owned joint venture enterprise under the PRC law. The registered capital of Dongguan Hamwell is HK\$67,940,000. At the balance sheet date, plant and machinery amounting to approximately HK\$62,505,000 has been contributed by the Group to Dongguan Hamwell, towards meeting the registered capital requirement. The remaining registered capital of HK\$5,435,000 has not yet been contributed by the minority shareholder of Dongguan Hamwell as at 31 December 2003.
- (vi) Henggang is a Sino-foreign owned joint venture enterprise under the PRC law. Subject to the payment of an annual amount of approximately HK\$2,830,000 (2002: HK\$3,134,000) to the joint venture party, the Group is entitled to all of the profits and bears all of the losses of Henggang.
- (vii) On 3 September 2003, the Group acquired additional 25.3% equity interest in Swank through the Swank's open offer, which was completed on 4 November 2003. Immediately after the completion of the Swank's open offer, the Group held 83.2% of the issued share capital of Swank.

On 16 December 2003, the Group disposed of 13.2% of the interests in Swank through the placing agreement entered between the Group and an independent third party. Immediately after the completion of the placing, the Group's equity interests in Swank decreased from 83.2% to 70% and a net proceed of HK\$11,104,000 were generated.

On 16 December 2003, the Group entered into a sale and purchase agreement with Rich Global Investments Limited ("Rich Global") and Kingsway Lion Spur Technology Limited ("Kingsway Lion"), are the wholly-owned subsidiaries of SW Kingsway Capital Holdings Limited ("SW Kingsway"). Pursuant to which Probest agreed to sell a total of 593,724,000 shares of Swank, representing approximately 19% of Swank's issued capital, to Rich Global and Kingsway Lion at a consideration of HK\$15,971,000 (the "Share Disposal Agreement"). Under the Share Disposal Agreement, the total of 593,724,000 Swank's shares would be acquired by Rich Global and Kingsway Lion at 312,486,000 and 281,238,000 Swank's shares, respectively. These transactions with Kingsway Lion and Rich Global were completed on 31 December 2003 and 2 January 2004, respectively. As a result, Swank's equity interests in the Group decreased from 70% to 61% on 31 December 2003, and a net proceed of HK\$7,303,000 was generated. Subsequent to balance sheet date, on 2 January 2004, Swank's equity interests in the Group further decreased from 61% to 51%, details of which are set out in note 33 to the financial statements.

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

# Notes to Financial Statements

31 December 2003

## 15. Interests in Associates

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	143,592	142,016
Due from associates	5,005	1,894
Provision for impairment	(113,016)	(113,016)
	<b>35,581</b>	30,894

The amounts due from associates are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2003	2002	
Dongguan Yueheng Optical Co., Ltd.	Corporate	The PRC	31%	29%	Manufacture of optical lenses
Dongguan Yueheng Optical (HK) Co. Limited	Corporate	Hong Kong	31%	29%	Trading of optical products
Dongguan Yueheng Optical (BVI) Company Limited	Corporate	The British Virgin Islands	31%	29%	Financial servicing and marketing of optical products

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

# Notes to Financial Statements

31 December 2003

## 16. Prepaid Rental

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning and end of the year	<b>10,500</b>	10,500
Amortisation:		
At beginning of the year	<b>6,386</b>	5,649
Provided during the year	<b>737</b>	737
At end of the year	<b>7,123</b>	6,386
Net book value:		
At end of the year	<b>3,377</b>	4,114

The prepaid rental represents the capital contribution made by the joint venture partner of Yifu in the form of a right to use the property owned by the joint venture partner within the terms of the joint venture.

The prepaid rental is amortised on a straight-line basis over the underlying initial term of the joint venture of 15 years.

## 17. Deferred Product Development Costs

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning of the year	<b>17,599</b>	16,753
Additions	<b>1,777</b>	846
At end of the year	<b>19,376</b>	17,599
Accumulated amortisation and impairment:		
At beginning of the year	<b>13,404</b>	12,294
Amortisation provided during the year	<b>1,189</b>	1,110
At end of the year	<b>14,593</b>	13,404
Net book value:		
At end of the year	<b>4,783</b>	4,195

# Notes to Financial Statements

31 December 2003

## 18. Pledged Deposits

In the prior year, the Group's overdraft facilities amounting to US\$20,000,000 which was equivalent to approximately HK\$155,640,000. In the prior year, the pledged deposits of the Group and the Company amounting to HK\$101,056,000 were used to secure the overdraft facilities, whereas none of the overdraft facilities was utilised.

## 19. Accounts Receivable

The aged analysis of the Group's accounts receivable is as follows:

	2003		2002	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	111,448	74	82,268	72
Four to six months	17,509	12	18,228	16
Seven months to one year	16,202	11	6,254	5
Over one year	5,450	3	8,173	7
	<b>150,609</b>	<b>100</b>	114,923	100
Provision	<b>(10,193)</b>		(10,067)	
Total after provision	<b>140,416</b>		104,856	

The normal credit period granted by the Group to customers ranges from 21 days to 120 days.

## 20. Loans Receivable

The loans receivable are repayable within one year, bear interest ranging from prime rate to 12% per annum and are secured, except for an amount of HK\$321,000 which is unsecured. In the prior year, the loans receivable were repayable within one year, bore interest ranging from prime rate to 24% per annum and were secured, except for an amount of HK\$34,000 which was unsecured.

## 21. Properties Held for Sale

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	13,000	15,200
Disposal	(4,333)	–
Provision	(2,967)	(2,200)
At end of year	<b>5,700</b>	13,000

The properties held for sale are situated in Hong Kong and are held under medium term leases.

# Notes to Financial Statements

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## 22. Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	43,434	61,638
Work in progress	25,741	26,686
Finished goods	8,735	13,415
	<b>77,910</b>	101,739

## 23. Accounts Payable

The aged analysis of the Group's accounts payable is as follows:

	2003	2002
	HK\$'000	HK\$'000
Current to three months	94,877	62,317
Four to six months	19,893	7,019
Seven months to one year	3,252	641
Over one year	1,253	1,141
	<b>119,275</b>	71,118

Accounts payable aged less than four months accounted for 79.5% (2002: 87.6%) of the total accounts payable.

## 24. Provision for Long Service Payments

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	1,465	1,000
Amount utilised during the year	(222)	(288)
Additional provision	–	753
At end of year	<b>1,243</b>	1,465

# Notes to Financial Statements

31 December 2003

## 24. Provision for Long Service Payments (continued)

	Company	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	240	–
Additional provision	–	240
At end of year	240	240

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

## 25. Deferred Tax Liabilities

	Accelerated tax depreciation HK\$'000
At 1 January 2003 and at 31 December 2003	1,433

The Group has tax losses arising in Hong Kong of approximately HK\$150,452,000 (2002: HK\$143,995,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

## 26. Share Capital

### Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
50,000,000,000 (2002: 5,000,000,000) ordinary shares of HK\$0.01 (2002: HK\$0.10) each	500,000	500,000
Issued and fully paid:		
286,068,644 (2002: 2,860,686,445) ordinary shares of HK\$0.01 each (2002: HK\$0.10) each	2,861	286,069



# Notes to Financial Statements

31 December 2003



## 26. Share Capital (continued)

There was no repurchase of any shares during the year.

During the year, the following changes in the Company's share capital took place:

- (a) Pursuant to a special resolution passed at the special general meeting held on 27 June 2003, in relation to capital reduction, share subdivision and share consolidation (the "Capital Reorganisation"), with effect from 30 June 2003, the authorised share capital of the Company was adjusted from HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.10 each to HK\$500,000,000 divided into 50,000,000,000 ordinary shares of HK\$0.01 each, and the issued share capital was also adjusted from HK\$286,068,645 divided into 2,860,686,445 ordinary shares of HK\$0.1 each to HK\$2,860,686 divided into 286,068,644 ordinary shares of HK\$0.01 each.

The implementation of Capital Reorganisation involves the following procedures:

- (i) a reduction in the nominal value of the issued and unissued shares of the Company from HK\$0.10 each to HK\$0.001 each;
- (ii) a subdivision of each authorised but unissued ordinary share into 100 shares of HK\$0.001 each;
- (iii) a consolidation of every 10 shares of the Company of HK\$0.001 each into one share of HK\$0.01 each; and
- (iv) the credit of HK\$283,207,959 arising from the capital reduction on the basis of 2,860,686,445 shares in issue will be transferred to a contributed surplus account of the Company, which may be used in future for such purposes as the board of directors may direct (including the payment of dividend) subject to the Companies Act 1981 of Bermuda.

Details of the Capital Reorganisation are set out in a circular of the Company dated 24 May 2003 and the announcement of the Company dated 27 June 2003.

# Notes to Financial Statements

31 December 2003

## 26. Share Capital (continued)

A summary of the transactions with reference to the above movement in the Company's share capital is as follow:

	Number of shares in issue '000	Issued share capital HK\$'000
<b>Authorised</b>		
At beginning of year (at HK\$0.1 each)	5,000,000	500,000
Capital reduction in nominal value of all shares from HK\$0.10 to HK\$0.001 each	–	(495,000)
	5,000,000	5,000
Share subdivision (at HK0.001 each) (1 share subdivided into 100 new share)	495,000,000	495,000
	500,000,000	500,000
Share consolidation (every 10 shares of HK\$0.001 each consolidated into 1 share of HK\$0.01 each)	(450,000,000)	–
	50,000,000	500,000
<b>Issued and fully paid</b>		
At beginning of year (at HK\$0.1 each)	2,860,686	286,069
Capital reduction in nominal value of all shares from HK\$0.10 to HK\$0.001 each	–	(283,208)
	2,860,686	2,861
Share consolidation (every 10 shares of HK\$0.001 each consolidated into 1 share of HK\$0.01 each)	(2,574,617)	–
	286,069	2,861

### Share options

Details of the Company's share option scheme are included in note 27 to the financial statements.



# Notes to Financial Statements

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## 27. Share Option Scheme

### (a) Share option schemes of the Company

The Company operates a share option scheme (the "Tomorrow 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 Tomorrow Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder of the Company's subsidiaries. The Tomorrow Scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Tomorrow Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Tomorrow Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Tomorrow Scheme at any time during a period not exceeding five years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

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

# Notes to Financial Statements

31 December 2003

## 27. Share Option Scheme (continued)

### (a) Share option schemes of the Company (continued)

Details of movements on the number of share options were as follows:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options		Number of share options			
			At	At	At	At	Lapsed	At
			1 January 2003 HK\$	1 July 2003 HK\$*	1 January 2003 '000	1 July 2003 '000*	during the year '000	31 December 2003 '000
<i>Directors</i>								
Ms. Louie Mei Po	11/2/2000	11/8/2000 to 10/8/2003	0.027	2.27	23,700	2,370	(2,370)	-
	20/3/2000	20/9/2000 to 19/9/2003	0.163	1.63	19,800	1,980	(1,980)	-
	2/5/2000	2/11/2000 to 1/11/2003	0.090	0.90	9,000	900	(900)	-
Ms. Wong Shin Ling, Irene	20/3/2000	20/9/2000 to 19/9/2003	0.163	1.63	10,800	1,080	(1,080)	-
	2/5/2000	2/11/2000 to 1/11/2003	0.090	0.90	19,200	1,920	(1,920)	-
Mr. Tam Ping Wah	2/5/2000	2/11/2000 to 1/11/2003	0.090	0.90	9,000	900	(900)	-
					91,500	9,150	(9,150)	-

\* The exercise price of share options has been adjusted for the Capital Reorganisation as detailed above in note 26 to the financial statements.



# Notes to Financial Statements

31 December 2003



## 27. Share Option Scheme (continued)

### (b) Share option schemes of Swank

All details of the Swank Scheme are the same as described under the heading "Share option schemes of the Company", except for the Swank Scheme became effective on 28 May 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date. On 12 June 2003, Swank granted 5 share options to an employee with an exercise period ranging from 12 June 2003 to 11 July 2003. These 5 share options were exercised at an exercise price of HK\$0.20 per share on 12 June 2003. The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of Swank's shares on the trading day immediately prior to the date of the grant of the share options was HK\$0.01. The Stock Exchange closing price of Swank's shares at the date of the exercise of the share options was HK\$0.01.

The directors consider that it is not appropriate to state the theoretical value of the options granted during the year under Swank's share option scheme. The directors believe that any calculation of the value of share options may not be meaningful as the exercise price is greater than the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options and also the share options were exercised at the same day of granting the share options.

Apart from the above, no other options were granted by Swank during the year. Swank has no share options outstanding as at the balance sheet date.

## 28. Reserves

### (a) Group

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

# Notes to Financial Statements

31 December 2003

## 28. Reserves (continued)

### (b) Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002	192,518	77	84,917	(11,180)	266,332
Issue of shares	8,900	–	–	–	8,900
Share issue expenses	(862)	–	–	–	(862)
Profit for the year	–	–	–	15,058	15,058
At 31 December 2002 and at 1 January 2003	200,556	77	84,917	3,878	289,428
Capital Reorganisation (note 26)	–	–	283,208	–	283,208
Profit for the year	–	–	–	30,768	30,768
At 31 December 2003	200,556	77	368,125	34,646	603,404

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation at the time of the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor and the credit arising from the capital reduction during the year as detailed in note 26 to the financial statements.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances.

# Notes to Financial Statements

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## 29. Note to the Consolidated Cash Flow Statement

### Acquisition of Swank

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	–	75,632
Interests in associates	–	36,057
Cash and bank balances	–	10,683
Accounts receivable	–	55,395
Prepayments, deposits and other receivables	–	5,343
Inventories	–	30,969
Accounts payable	–	(26,871)
Accrued liabilities and other payables	–	(19,769)
Due to associates	–	(15,192)
Tax payable	–	(833)
Provision for long service payments	–	(1,000)
Minority interests	–	(1,296)
	–	149,118
Negative goodwill on acquisition	–	(79,087)
	–	70,031
Satisfied by:		
Cash	–	70,031

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Swank is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	–	(70,031)
Deposit paid in the prior year	–	68,000
Cash and bank balances acquired	–	10,683
Net inflow of cash and cash equivalents in respect of the acquisition of Swank	–	8,652

Since its acquisition, Swank contributed HK\$207,718,000 to the Group's turnover and HK\$13,546,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

# Notes to Financial Statements

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## 30. Contingent Liabilities

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees of banking facilities granted to subsidiaries	<b>22,400</b>	22,400

The Group had no other significant contingent liabilities at the balance sheet date (2002: Nil).

## 31. Commitments

### (a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Property, plant and equipment:		
Contracted for	–	1,166
Authorised, but not contracted for	–	48
	–	1,214
Deferred product development costs:		
Contracted for	–	585
Authorised, but not contracted for	<b>1,199</b>	–
	<b>1,199</b>	1,799
Commitments to contribute to subsidiaries registered in the PRC	<b>9,638</b>	17,417

The Company had no significant commitments at the balance sheet date (2002: Nil).

### (b) Operating lease commitments

The Group leases certain of its office properties, factory premises, warehouses and office equipment under operating lease arrangements. Leases for office properties, factory premises and warehouses are negotiated for terms ranging from one to 15 years, and those office equipment for a term of three years.

# Notes to Financial Statements

31 December 2003

## 31. Commitments (continued)

### (b) Operating lease commitments (continued)

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Within one year	9,753	6,564
In the second to fifth years, inclusive	17,640	13,241
After five years	6,389	2,675
	<b>33,782</b>	22,480
Office equipment:		
Within one year	55	267
In the second to fifth years, inclusive	34	89
	<b>89</b>	356
	<b>33,871</b>	22,836

## 32. Connected and Related Party Transactions

During the year, the Group had the following connected and related party transactions:

- (i) A loan of HK\$7,000,000 (2002: HK\$7,000,000) was granted by a wholly-owned subsidiary of the Group to E-Top PCB Limited ("E-Top"), a 65% owned subsidiary of the Group, for its general working capital. The loan was unsecured, bore interest at the one-month Hong Kong dollar time deposit rate and had no fixed terms of repayment.
- (ii) In addition, the Group had certain banking facilities, with a total limit of HK\$22.4 million (2002: HK\$22.4 million), which were used by a wholly-owned subsidiary of the Group. These banking facilities were secured by corporate guarantees executed by E-Top and Plentiful, both of which are 65% owned subsidiaries of the Group, and certain wholly-owned subsidiaries of the Group, and certain leasehold land and buildings of the Group (note 12).
- (iii) In prior year, Probest, a wholly-owned subsidiary of the Group, acquired HK\$250,000,000 bank loans of Swank (the "Debt") at a cash consideration of HK\$58,000,000 from the banks. The Debt was unsecured, bore interest at 1% per annum over the Hong Kong prime rate and was repayable in three annual instalments commencing from 1 June 2002. During the year, out of the Debt, HK\$37,000,000 was settled through the Swank's open offer completed on 4 November 2003, HK\$3,000,000 was used to acquire (i) 30% equity interests in Profitown Investment Corporation ("Profitown"), a wholly-owned subsidiary of Swank; and (ii) 30% of shareholder loan due from Profitown to Swank, pursuant to a share sale agreement dated 3 September 2003. In addition, Probest agreed to waive the repayment of HK\$47,000,000 of the Debt and the interest accrued of HK\$26,500,000 for the period from 1 March 2002 to the effective date of the loan settlement agreement. For the remaining HK\$163,000,000 of the Debt, which shall be repaid by Swank to Probest by instalments in accordance with the terms of the promissory note as further detailed in the joint announcements of the Company and Swank dated 9 September 2003, 17 October 2003 and 4 November 2003; and the circular of the Company dated 30 September 2003. These transactions constituted connected transactions as defined in the Listing Rules.

# Notes to Financial Statements

31 December 2003

## 32. Connected and Related Party Transactions (continued)

- (iv) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2003 HK\$'000	2002 HK\$'000
Sales of products to associates	(i)	<b>8,390</b>	16,039
Purchases of products from associates	(ii)	<b>12,755</b>	21,005
Management fee income from associates	(iii)	<b>2,346</b>	2,643

- (i) The sales to the associates were made according to the published prices, terms and conditions offered to the major customers of the Group.
- (ii) The purchases from the associates were made according to the published prices, terms and conditions offered by the associates to their major customers.
- (iii) The management fee income was charged according to the management's estimation on costs of office premises and utilities used by the associates.

## 33. Post Balance Sheet Events

- (i) On 16 December 2003, Fortune Dynamic, a wholly-owned subsidiary of the Group, entered into an option agreement (the "Option Agreement") with Rich Global Investments Limited ("Rich Global"), a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SW Kingsway"), a company incorporated in Bermuda with limited liability and listed on the Stock Exchange. Under the Option Agreement, Rich Global has the option to purchase 50% of the entire issued shares of Probest (the "Option Shares") at a consideration of HK\$15.6 million (the "Option"). The Option may be exercised by Rich Global within a period of 15 months from the date of the Option Agreement.

Pursuant to the Option Agreement, the Company and Fortune Dynamic have jointly and severally undertaken to Rich Global, inter alia, that:

- (1) upon completion of the sale and purchase of the Option Shares, the same number of persons as the then current number of directors comprising the board of directors of Probest as Rich Global may nominate shall be appointed as directors of Probest;
- (2) on or before the completion of the sale and purchase of the Option Shares, the promissory note due by Swank to Probest shall be duly novated, assigned or transferred to a subsidiary of Swank; and



# Notes to Financial Statements

31 December 2003



## 33. Post Balance Sheet Events (continued)

- (3) from the date of the Option Agreement and until the Option is exercised or lapsed, Fortune Dynamic shall not reduce its shareholding percentage in Probest and shall procure Probest not to transfer, dispose, pledge or charge the shares of Swank currently held by Probest.

The grant of the Option is conditional on the completion of the share disposal agreement and the placing. The placing was completed on 30 December 2003 and the share disposal agreement was completed on 2 January 2004. Accordingly, the Option becomes enforceable and effective since 2 January 2004.

Upon completion of the sale and purchase of the Option Share pursuant to the exercise of the Option, the Group will control less than 50% of the issued share capital of Swank. For the composition of the board of directors of Swank, the Group will control 50% and Rich Global will control the remaining 50%.

Further details of the Option agreements are set out in a circular to shareholders dated 7 April 2003.

- (ii) On 16 December 2003, Probest entered into a sale and purchase agreement with Rich Global and Kingsway Lion, pursuant to which, Probest agreed to sell and Rich Global and Kingsway Lion agreed to purchase a total of 593,724,000 shares, representing approximately 19% of the entire issued share capital of Swank, at a total consideration of approximately HK\$15,971,000 or approximately HK\$0.0629 per share. Out of the 593,724,000 shares, 312,486,000 shares, representing approximately 10% of the entire current issued share capital of Swank, were purchased by Rich Global and the transaction was completed on 31 December 2003. The balance of the 281,238,000 shares, representing approximately 9% of the entire current issued share capital of Swank, were purchased by Kingsway Lion and the transaction was subsequently completed on 2 January 2004.

Details of which are laid down in the circular of the Company dated 19 January 2004.

## 34. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 35. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 April 2004.