

## NOTES TO FINANCIAL STATEMENTS

30 September 2000

### 1. Corporate information

The principal activity of the Company is investment holding. The principle activities of the Group consist of the design, manufacture and sale of DC Switches, AC Switches, Jacks, AC Sockets and speaker terminals, all of which are basic components commonly used in electrical appliances and electronic products such as audio and video, telecommunication equipment, toys and computers. There were no significant changes in the nature of the Group's principal activities during the year.

The Company is a subsidiary of Bright Asia Holdings Limited, a company incorporated in British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

### 2. Summary of significant accounting policies

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("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 revaluation of certain fixed assets as further explained below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 30 September 2000. The results of 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.

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### **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 basis:

- 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; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in value, when they are written down to values determined by the directors.

### **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation.

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

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Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

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

Leasehold land and buildings	– over the lease terms
Leasehold improvements	– 5 years
Moulds, plant and machinery	– 5 years
Furniture, office equipment and motor vehicles	– 5 years

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 of a revalued asset, the attributable revaluation reserve not previously dealt with in retained profits is transferred directly to retained profits.

### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

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

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### Investments

- (i) Held-to-maturity securities are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less provisions for diminutions in values, on an individual investment basis. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. Provisions for diminutions in values are made when carrying amounts are not expected to be recovered and are charged to the profit and loss account.
- (ii) Investment securities are non-trading investments in unlisted equity securities intended to be held on a continuing strategic or long term purpose. Investment securities are stated at cost less any provisions for diminutions in values other than those considered to be temporary in nature, as determined by the directors.
- (iii) Equity-linked bonds are debt securities with a residual maturity within one year, with the return on each of which linked to the share price performance of a certain Hong Kong or Overseas listed reference equity. The Company purchases such equity-linked bonds at a discount and receives the full nominal amount of the bond (the “Nominal Value”) at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above the Nominal Value. If the closing price of the reference equity on the maturity date is at or below the Nominal Value, the Company is obliged to redeem the equity linked bonds in exchange for shares underlying the reference equity.

The equity-linked bonds are stated at the lower of the cost of the bonds plus the cumulative amortisation of the difference between the purchase prices and the Nominal Value at the maturity date. Where loss on redemption is anticipated in view that quoted market price of the particular reference equity at the balance sheet date has fallen below the Nominal Value, provisions are made for any portion of the bonds carrying value not expected to be recoverable. The net gains or losses so arising are credited or charged to the profit and loss account for the period in which they arise.

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### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

### **Operating leases**

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

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### **Foreign currencies**

All the books and records of the Company and its subsidiaries are maintained in Hong Kong dollar. Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

### **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 equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

**3. Impact of revised statement of standard accounting practice**

The revised SSAP 1 “Presentation of financial statements” has been adopted in the preparation of the current year’s financial statements. It prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and balance sheets, as set out on pages 21, 23 to 24 and 27 respectively, have been revised in accordance with SSAP 1, and a consolidated statement of recognised gains and losses, not previously required, is included on page 22. Additional disclosures as required are included in the supporting notes to the financial statements.

**4. Related party transactions**

During the year, the Group paid rental expenses of HK\$960,000 (1999: HK\$400,000) to a related company in which Mr. Chow Tak Hung, a director/substantial shareholder of the Company, also holds directorship and a beneficial shareholding. The rental was paid in respect of a director’s quarter and has been included as part of the directors’ remuneration as detailed in note 7 to the financial statements. The monthly rental was determined with reference to open market rentals in respect of similar leased premises.

**5. Turnover**

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, after elimination of intra-group transactions during the year.

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### 6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	133,217	85,255
Auditors' remuneration	550	550
Depreciation	14,287	16,195
Staff costs (including directors' remuneration – note 7)	30,944	22,629
Operating lease rentals on land and buildings	340	512
Provision for obsolete and slow-moving inventories	2,364	1,131
Provision for non-recoverable receivables	1,791	1,741
Deficit on revaluation of leasehold land and buildings	14,040	2,958
Deficit on revaluation of investment properties	770	3,000
Loss/(gain) on disposal of fixed assets	262	(43)
Interest income	<u>(6,320)</u>	<u>(4,313)</u>

Cost of inventories sold includes HK\$40,260,000 (1999: HK\$31,359,000) relating to direct staff costs, provision for obsolete and slow-moving inventories and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expense.

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### 7. Directors' remuneration

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
Others emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	5,360	4,885
	5,600	5,125

In addition to the above remuneration, 18,500,000 share options to subscribe for ordinary shares in the Company were granted to all the directors of the Company subsequent to the balance sheet date. In the absence of a readily available market value for share options on the ordinary shares in the Company, the directors were unable to arrive at an accurate estimated monetary value of share options granted. Accordingly, no value was included in directors' remuneration in respect of the share options granted subsequent to the balance sheet date.

The number of directors whose remuneration fell within the band set out below is as follows:

	Number of directors	
	2000	1999
HK\$Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–

There was no arrangement under which a director waived or agreed to waive any remuneration.



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### 8. Five highest paid individuals

The five highest paid individuals during the year included four (1999: four) directors, details of whose remuneration are set out in note 7 to the financial statements. The details of the remuneration of remaining non-director, highest paid employee are as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing, other allowances and benefits in kind	<b><u>1,086</u></b>	<u>610</u>
	<b>Number of employee</b>	
	<b>2000</b>	1999
HK\$Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	<b><u>1</u></b>	<u>–</u>

In addition to the above remuneration, 3,500,000 share options to subscribe for ordinary shares in the Company were granted to the highest paid individual of the Company during the year ended 30 September 2000. In the absence of a readily available market value for share options on the ordinary shares in the Company. The directors were unable to arrive at an accurate estimated monetary value of share options granted. Accordingly, no value was included in employee's cost in respect of the share options granted during the year ended 30 September 2000.

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### 9. Tax

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Current:		
Hong Kong	136	86
Overseas	2,901	2,281
Under/(over)-provision in prior years	16	(125)
Rebate relating to prior year	–	(6)
Deferred tax	(361)	313
	<hr/>	<hr/>
Tax charge for the year	<b><u>2,692</u></b>	<b><u>2,549</u></b>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

A subsidiary of the Company operating in the People's Republic of China (the "PRC") is exempt from income tax for two years starting from the first profitable year of operation in 1995 and is entitled to 50 per cent. relief from income tax for the following three years under the Income Tax Law of the PRC. The tax concession had expired in the prior year. During the year, provision for income tax has been made at the applicable rate for the PRC subsidiary.

Movements in the provision for deferred tax liability are as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
At beginning of year	361	48
Charge/(write-back) for the year	(361)	313
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At 30 September	<b><u>–</u></b>	<b><u>361</u></b>

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The principal components of deferred tax liabilities/(assets) of the Group and the Company provided and amounts not provided/(recognised) at the balance sheet date were as follows:

	<b>Group</b>			
	<b>Provided</b>		<b>Not provided</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances/(excess of tax allowance over depreciation)	–	361	<b>(259)</b>	–
Tax losses carried forward	–	–	<b>(464)</b>	(129)
	<u>–</u>	<u>361</u>	<u><b>(723)</b></u>	<u>(129)</u>
	<b><u>–</u></b>	<b><u>361</u></b>	<b><u>(723)</u></b>	<b><u>(129)</u></b>

	<b>Company</b>			
	<b>Provided</b>		<b>Not provided</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances	–	–	–	–
Tax losses carried forward	–	–	<b>(464)</b>	(129)
	<u>–</u>	<u>–</u>	<u><b>(464)</b></u>	<u>(129)</u>
	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>(464)</u></b>	<b><u>(129)</u></b>

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, therefore the amount of potential deferred tax thereon has not been quantified.

### 10. Net profit from ordinary activities attributable to shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$18,368,000 (1999: HK\$12,156,000).

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### 11. Dividend

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Proposed final dividend – Nil (1999: HK1.0 cent) per ordinary share	<u>–</u>	<u>2,800</u>

### 12. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$1,456,000 (1999: HK\$11,391,000) and the weighted average of 280,000,000 (1999: 280,000,000) ordinary shares in issue during the year.

No diluted earnings per share have been shown for the current year and the prior year because the exercise price of the share options outstanding during these years was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic earnings per share.

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**13. Fixed assets**  
**Group**

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Moulds, plant and machinery HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	4,000	43,500	15,800	77,484	7,087	147,871
Additions	–	–	–	9,001	–	9,001
Disposals	–	–	–	(1,330)	(656)	(1,986)
Deficit on revaluation	(770)	(16,300)	–	–	–	(17,070)
	<u>3,230</u>	<u>27,200</u>	<u>15,800</u>	<u>85,155</u>	<u>6,431</u>	<u>137,816</u>
At 30 September 2000						
Accumulated depreciation:						
At beginning of year	–	–	11,123	54,044	4,475	69,642
Provided during the year	–	966	1,495	11,020	806	14,287
Disposals	–	–	–	(945)	(397)	(1,342)
Reversal upon revaluation	–	(966)	–	–	–	(966)
	<u>–</u>	<u>–</u>	<u>12,618</u>	<u>64,119</u>	<u>4,884</u>	<u>81,621</u>
At 30 September 2000						
Net book value:						
At 30 September 2000	<u>3,230</u>	<u>27,200</u>	<u>3,182</u>	<u>21,036</u>	<u>1,547</u>	<u>56,195</u>
At 30 September 1999	<u>4,000</u>	<u>43,500</u>	<u>4,677</u>	<u>23,440</u>	<u>2,612</u>	<u>78,229</u>
Analysis of cost or valuation:						
At cost	–	–	15,800	85,155	6,431	107,386
At 30 September 2000 valuation	<u>3,230</u>	<u>27,200</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>30,430</u>
	<u>3,230</u>	<u>27,200</u>	<u>15,800</u>	<u>85,155</u>	<u>6,431</u>	<u>137,816</u>

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The Group's investment properties are all situated in Hong Kong and are held under medium term leases.

An analysis of the valuation of the leasehold land and buildings of the Group at the balance sheet date was as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Held in Hong Kong under medium term leases	<b>9,400</b>	15,500
Held outside Hong Kong under medium term leases	<b>17,800</b>	28,000
	<hr/>	<hr/>
At 30 September	<b><u>27,200</u></b>	<b><u>43,500</u></b>

The Group's leasehold land and buildings located in Hong Kong were revalued on an open market, existing use basis by DTZ Debenham Tie Leung Limited, independent professional valuers, at HK\$9,400,000 as at 30 September 2000. A deficit of HK\$5,770,000 so arising therefrom has been charged to the profit and loss account (note 6).

The Group's leasehold land and buildings located in the People's Republic of China were valued on an open market, existing use basis by Castores Magi International Limited, independent professional valuers, at HK\$17,800,000 as at 30 September 2000. A deficit of HK\$1,294,000 arising therefrom has been charged to asset revaluation reserve (note 21) and a deficit of HK\$8,270,000 has been charged to profit and loss account (note 6).

As a result of the post balance sheet event which is further detailed in note 24 to the financial statements, the Group's investment properties were stated at the net realisable value of HK\$3,230,000 as at 30 September 2000. A deficit of HK\$770,000 so arising has been charged to the profit and loss account (note 6).

Had the leasehold land and buildings been stated at cost less accumulated depreciation, the carrying amount as at 30 September 2000 would have been HK\$47,556,000 (1999: HK\$48,565,000).

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### 14. Interests in subsidiaries

	<b>Company</b>	
	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Unlisted shares, at cost	<b>28,434</b>	28,434
Long term loan to a subsidiary	<b>35,000</b>	35,000
Provisions	<b>(22,090)</b>	–
	<b><u>41,344</u></b>	<b><u>63,434</u></b>

The long term loan to a subsidiary is unsecured, interest-free and the Company has undertaken not to demand payment of the amounts involved within one year from 30 September 2000.

The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share capital/ registered capital	Equity interests attributable to the Company		Principal activities
			2000	1999	
<b>Directly held</b>					
M S C Holdings Limited	British Virgin Islands	US\$6,000	100%	100%	Investment holding

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### Indirectly held

Morning Star Industrial Company Limited	Hong Kong	HK\$5,000,000	100%	100%	Manufacture and trading of switches, jacks, sockets and speaker terminals
Extra Rich Development Limited	Hong Kong	HK\$10,000	100%	100%	Property holding
Winnings Unlimited Limited	British Virgin Islands/ PRC	US\$1,000	100%	100%	Provision of transportation services
Topy International Limited	British Virgin Islands/ PRC	US\$1,000	100%	100%	Provision of technical support services
Binsak Trading Limited	British Virgin Islands/ PRC	US\$1,000	100%	100%	Provision of quality control services
M S C China Limited	British Virgin Islands/ PRC	US\$1,000	100%	100%	Provision of product design and development services
Morning Star (Dongguan) Electronic Co., Ltd.	PRC	HK\$30,000,000	100%	100%	Manufacture of switches, jacks, sockets and speaker terminals
Wing Lee (Switch & Jack) Limited	Hong Kong	HK\$10,000	100%	100%	Dormant
China King Holdings Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding



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Ocean World International Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Pioneer Rich International Limited	Hong Kong	HK\$100	100%	100%	Dormant

### 15. Investments

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<u>Long term investments</u>				
Listed held-to-maturity securities, at amortised cost	55,887	–	55,887	–
Investment securities, at cost	650	–	–	–
	<u>56,537</u>	<u>–</u>	<u>55,887</u>	<u>–</u>
<u>Short term investments</u>				
Equity-linked bonds	7,731	–	7,731	–

Held-to-maturity securities represent investment in bonds listed on the New York Stock Exchange, Inc.. Investment securities are unlisted Hong Kong equity securities. Equity-linked bonds are debt securities with the return of which is linked to the share price performance of a certain Hong Kong or Overseas listed reference equity.

The market values of the Group's and the Company's listed held-to-maturity securities at 30 September 2000 and at the date of approval of these financial statements were approximately HK\$56,362,000 and HK\$55,977,000, respectively.

### 16. Inventories

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	4,531	3,014
Work in progress	3,923	4,251

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Finished goods	<u>2,531</u>	<u>1,134</u>
	<u><b>10,985</b></u>	<u><b>8,399</b></u>

### 17. Accounts receivables

The ageing analysis of accounts receivable is as follows:

	2000 HK\$'000	1999 HK\$'000
Current – 3 months	46,674	37,312
4 – 6 months	6,445	4,785
7 – 12 months	<u>20</u>	<u>1,122</u>
	<u><b>53,139</b></u>	<u><b>43,219</b></u>

Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well established customers, where the terms are extended to 120 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

### 18. Accounts payable

The ageing analysis of accounts payable is as follows:

	2000 HK\$'000	1999 HK\$'000
Current – 3 months	12,725	9,249
4 – 6 months	<u>260</u>	<u>8</u>
	<u><b>12,985</b></u>	<u><b>9,257</b></u>

### 19. Banking facilities

The Group's banking facilities are supported by a pledge of the Group's bank deposits amounting to HK\$9,460,000 (1999: Nil).

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### 20. Share capital

	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issue and fully paid:		
280,000,000 ordinary shares of HK\$0.10 each	<u>28,000</u>	<u>28,000</u>

#### Share options

Pursuant to the share option scheme adopted on 18 March 1998, the board of directors may, on or before 18 March 2007, at its discretion invite any full-time employees, including directors, of the Company or any of its subsidiaries to take up options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 25% of the issued share capital of the Company from time to time which have been duly allotted and issued.

Pursuant to the above Scheme, on 9 September 1998, 5,000,000 share options were granted to certain directors and employees of the Group for subscription of the ordinary shares of the Company at an exercise price of HK\$0.78 per share at any time from 9 September 1998 to 30 September 2000. At the balance sheet date, these share options were cancelled upon the date of expiry.

On 16 February 2000, 4,500,000 share options were granted to certain employees, which entitle them to subscribe for a total of 4,500,000 ordinary shares of the Company. The shares options are exercisable at a price of HK\$0.535 per share during the period from 16 February 2000 to 15 February 2003. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 4,500,000 additional ordinary shares of HK\$0.10 each at a total consideration of HK\$2,407,500. At the balance sheet date and the date of this report, all of these share options remained outstanding.

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Subsequent to the balance sheet date, on 5 October 2000, a further 18,500,000 share options were granted to certain of the Company's directors, which entitle them to subscribe for a total of 18,500,000 ordinary shares at a price of HK\$0.244 per share at any time from 5 October 2000 to 17 March 2007. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 18,500,000 additional ordinary shares of HK\$0.10 each at a total consideration of HK\$4,514,000. At the date of this report, all of these share options remained outstanding.

### 21. Reserves

	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group					
At 1 October 1998	31,986	1,594	39,849	60,758	134,187
Revaluation deficit on fixed assets	–	(300)	–	–	(300)
Net profit for the year	–	–	–	11,391	11,391
Dividend – note 11	–	–	–	(2,800)	(2,800)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 1999 and 1 October 1999	31,986	1,294	39,849	69,349	142,478
Revaluation deficit on fixed assets – note 13	–	(1,294)	–	–	(1,294)
Net profit for the year	–	–	–	1,456	1,456
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 2000	<u>31,986</u>	<u>–</u>	<u>39,849</u>	<u>70,805</u>	<u>142,640</u>
Company					
At 1 October 1998	31,986	–	63,234	19,696	114,916
Net profit for the year	–	–	–	12,156	12,156
Dividend – note 11	–	–	–	(2,800)	(2,800)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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At 30 September 1999 and at 1 October 1999	31,986	–	63,234	29,052	124,272
Net profit for the year	–	–	–	18,368	18,368
	31,986	–	63,234	47,420	142,640
At 30 September 2000	31,986	–	63,234	47,420	142,640

The contributed surplus of the Group arose as a result of the Group reorganisation on 18 March 1997 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. In accordance with the Laws of Bermuda the contributed surplus is distributable in certain circumstances.

### 22. Notes to consolidated cash flow statement

Reconciliation of profit before tax to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit before tax	4,148	13,940
Depreciation	14,287	16,195
Deficit on revaluation of leasehold land and buildings and investment properties	14,810	5,958
Interest income	(6,320)	(4,313)
Loss/(gain) on disposal of fixed assets	262	(43)
Provision for inventories	2,364	1,131
Provision for non-recoverable receivables	1,791	1,741
Decrease/(increase) in inventories	(4,950)	1,300
Increase in accounts receivable	(11,711)	(8,142)
Decrease/(increase) in prepayments, deposits and other receivables	(7,671)	756
Increase in accounts payable	3,728	2,608

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Increase in accrued liabilities and other payables	<u>8,251</u>	<u>953</u>
Net cash inflow from operating activities	<u><b>18,989</b></u>	<u><b>32,084</b></u>

**23. Commitments**

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
(a) Capital commitments contracted but not provided for:		
Purchase of fixed assets	<u>–</u>	<u>332</u>
(b) Payments in respect of non-cancellable operating leases committed to be made in the following year were as follows:		
Land and buildings expiring:		
Within one year	149	560
In the second to fifth years, inclusive	<u>–</u>	<u>162</u>
	<u><b>149</b></u>	<u><b>722</b></u>

The Company had no significant commitments at the balance sheet date (1999: Nil).

**24. Post balance sheet event**

On 1 November 2000, Extra Rich Development Limited (“Extra Rich”), a wholly-owned subsidiary of the Company, entered into an agreement with Chun Yuen Loong Limited, an independent third party. Pursuant to the agreement, Extra Rich agreed to sell its investment properties to Chun Yuen Loong Limited for a cash consideration of HK\$3,230,000. This transaction will be completed on or before 15 January 2001. The resulting loss on disposal of HK\$770,000 has been included in these financial statements.

**25. Comparative amounts**

As further explained in note 3 to the financial statements, due to the adoption of a revised SSAP during the current year, the presentation of the profit and loss accounts, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year’s presentation.

**26. Approval of the financial statement**

The financial statements were approved by the board of directors on 3 January 2001.