

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda (as amended), on 21 May 1997. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 October 1997.

During the year, the Company’s principal activity was investment holding. The continuing principal activities of the Group consisted of the manufacture and sale of electronic calculators, personal digital assistants (“PDAs”) and other electronic products. During the year, the Group commenced the production of digital cameras.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 remeasurement of investment properties and land and buildings situated in Hong Kong, as further explained below.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 May 2001. 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.

2. BASIS OF PREPARATION AND 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:

- 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;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- rental income, on the straight-line basis over the lease terms.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half 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 diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. Upon the disposal of such subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is accounted for in arriving at the gain or loss on disposal.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(continued)***Fixed assets and depreciation**

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation. Leasehold land and buildings situated in Hong Kong are stated at valuation.

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 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 provided 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:

Medium term leasehold land and buildings	Over the lease terms
Leasehold improvements	15%
Plant and machinery	15%
Moulds	15%
Furniture, fixtures, office equipment and motor vehicles	15% - 20%

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. 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.

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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation, and is stated at cost. Cost comprises the direct costs of construction, installation and testing during the period of construction or installation. Construction in progress is transferred to fixed assets when it is capable of rendering saleable output/services on a commercial basis.

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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Leased assets *(continued)*

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.

Long term investments

Long term investments are clearly identifiable unlisted and listed equity securities, which are intended to be held on a continuing basis for an identified long term purposes documented at the time of acquisition or change of purpose. Such investments are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors, on an individual investment basis. Any reduction in carrying amounts is charged to the profit and loss account.

Where the circumstances and events which led to the write-downs or write-off of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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 amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Accounts receivable

Accounts receivable, which generally have credit terms of one to three months, are recognised and carried at the original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out 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 further costs expected to be incurred to completion and on disposal.

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, 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.

Borrowing costs

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Defined retirement scheme

The Group operates a defined contribution retirement scheme for all qualified employees in Hong Kong, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme before his/her interest in the Group's employer contributions is fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

In addition, the Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. 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 Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions are fully and immediately vested in favour of the employees.

The employees of the subsidiary in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme operated by the Government of the PRC.

Foreign currencies

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.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Any resulting translation differences are dealt with in the currency translation reserve.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Cash equivalents

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. TURNOVER

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

4. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, is as follows:

	Turnover	
	2001	2000
	HK\$'000	HK\$'000
By principal activity:		
Manufacture and sale of:		
Calculators and others	168,168	135,055
PDAs and digital cameras	170,366	155,485
	<hr/>	<hr/>
Total	338,534	290,540
	<hr/>	<hr/>
By geographical area:		
United States of America	167,715	165,608
Europe	113,186	78,445
People's Republic of China – Hong Kong	24,577	20,338
Others	33,056	26,149
	<hr/>	<hr/>
Total	338,534	290,540
	<hr/>	<hr/>

Notes to Financial Statements (continued)

31 May 2001

4. SEGMENTAL INFORMATION (continued)

	Contribution to profit from operating activities	
	2001	2000
	HK\$'000	HK\$'000
By principal activity:		
Manufacture and sale of:		
Calculators and others	22,720	12,458
PDAs and digital cameras	28,286	18,295
	<hr/>	<hr/>
	51,006	30,753
Add: Interest income	1,120	860
Gain on disposal of subsidiaries	3,628	–
	<hr/>	<hr/>
Total	55,754	31,613
	<hr/>	<hr/>
By geographical area:		
United States of America	24,568	17,966
Europe	18,688	8,402
People's Republic of China - Hong Kong	2,630	1,585
Others	5,120	2,800
	<hr/>	<hr/>
	51,006	30,753
Add: Interest income	1,120	860
Gain on disposal of subsidiaries	3,628	–
	<hr/>	<hr/>
Total	55,754	31,613
	<hr/>	<hr/>

5. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Depreciation:		
Owned fixed assets	19,933	16,355
Leased fixed assets	993	1,096
Amortisation of development costs	509	–
Research costs	80	–
Cost of inventories sold	262,687	235,640
Operating lease rentals in respect of land and buildings	253	156
Auditors' remuneration	900	900
Staff costs (excluding directors' remuneration – note 7)		
Salaries and allowances	22,163	19,604
Pension contributions	233	255
Less: forfeited contributions	(2)	(14)
	231	241
Revaluation deficit/(surplus) of leasehold land and buildings situated in Hong Kong	(624)	624
Revaluation deficit/(surplus) of investment properties	(1,050)	104
Exchange gains, net	(426)	(188)
Gain on disposal of subsidiaries	(3,628)	–
Gross rental income	(1,197)	(925)
Less: outgoings	68	70
	(1,129)	(855)
Interest income	(1,120)	(860)

The cost of inventories sold includes HK\$26,838,000 (2000: HK\$26,288,000) relating to direct staff costs, amortisation of development costs and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

No interest charges were capitalised to construction in progress in the current or prior years.

Notes to Financial Statements *(continued)*

31 May 2001

6. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	10,509	8,963
Obligations under finance leases	470	255
	<u>10,979</u>	<u>9,218</u>

7. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees	–	–
Other emoluments:		
Executive directors:		
Basic salaries, other allowances and benefits in kind	2,075	3,536
Pension scheme contributions	156	–
Independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	168	205
	<u>2,399</u>	<u>3,741</u>

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	2
	<u>5</u>	<u>6</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees of the Group during the year included two (2000: three) directors, details of whose remuneration are set out in note 7 above, and three (2000: two) employees. The remuneration paid to these non-director employees, who fell within the following bands, is analysed below:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, other allowances and benefits in kind	1,802	1,730
Pension contribution	77	–
	<u>1,879</u>	<u>1,730</u>
	Number of employees	
	2001	2000
Nil – HK\$1,000,000	3	1
HK\$1,000,001 – HK\$1,500,000	–	1
	<u>3</u>	<u>2</u>

On 18 April 2001, a total of 2,000,000 share options to subscribe for ordinary shares in the Company were granted to a non-director, highest paid employee at nil consideration. These share options are exercisable within 2 years from 18 April 2002 at an exercise price of HK\$0.039 per share, subject to adjustment. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no value has been included in the remuneration of the non-director, highest paid employee in respect thereof.

9. TAX

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for Hong Kong profits tax for the year	1,230	1,950
Underprovision of Hong Kong profits tax in prior year	100	214
Deferred tax (<i>note 21</i>)	2,256	–
	<u>3,586</u>	<u>2,164</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$149,000 (2000: HK\$53,000).

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\$41,194,000 (2000: HK\$20,231,000) and the weighted average of 775,353,000 (2000: 332,933,000) shares in issue during the year, adjusted to reflect the rights issue after the balance sheet date.

The calculation of diluted earnings per share for the year is based on the net profit attributable to shareholders for the year of HK\$41,194,000 and the weighted average of 783,125,000 ordinary shares in issue during the year. There were no dilutive potential ordinary shares in issue during the year ended 31 May 2000, and accordingly, the diluted earnings per share was not shown.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation to that used in the diluted earnings per share calculation for the year ended 31 May 2001 is as follows:

Weighted average number of shares used in the basic earnings per share calculation	775,353,000
Weighted average number of shares assumed to have been issued on the deemed exercise of all options outstanding during the year, adjusted to reflect the rights issue after the balance sheet date	<u>7,772,000</u>
Weighted average number of shares used in the diluted earnings per share calculation	<u><u>783,125,000</u></u>

Notes to Financial Statements (continued)

31 May 2001

12. FIXED ASSETS

Group

	Investment properties HK\$'000	Leasehold land and buildings situated in PRC HK\$'000	Leasehold land and buildings situated in Hong Kong HK\$'000	Construct- ion in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	21,550	68,498	7,300	5,420	6,709	43,957	55,786	25,658	234,878
Additions	-	14,634	-	4,912	12,624	21,921	13,649	8,477	76,217
Disposal of a subsidiary	-	-	-	-	-	-	(239)	-	(239)
Revaluation surplus	1,050	-	650	-	-	-	-	-	1,700
At 31 May 2001	22,600	83,132	7,950	10,332	19,333	65,878	69,196	34,135	312,556
Accumulated depreciation:									
At beginning of year	-	1,952	-	-	3,284	22,612	24,077	8,833	60,758
Provided during the year	-	1,358	155	-	1,535	5,486	8,254	4,138	20,926
Disposal of a subsidiary	-	-	-	-	-	-	(72)	-	(72)
Write-back on revaluation	-	-	(155)	-	-	-	-	-	(155)
At 31 May 2001	-	3,310	-	-	4,819	28,098	32,259	12,971	81,457
Net book value:									
At 31 May 2001	22,600	79,822	7,950	10,332	14,514	37,780	36,937	21,164	231,099
At 31 May 2000	21,550	66,546	7,300	5,420	3,425	21,345	31,709	16,825	174,120
An analysis of cost or valuation:									
At cost	-	83,132	-	10,332	19,333	65,878	69,196	34,135	282,006
At 2001 valuation	22,600	-	7,950	-	-	-	-	-	30,550
	22,600	83,132	7,950	10,332	19,333	65,878	69,196	34,135	312,556

The Group's leasehold land and buildings situated in Hong Kong were revalued on 31 May 2001 by Chung, Chan & Associates, an independent firm of professional valuers, on an open market, existing use basis, at HK\$7,950,000. Surplus of HK\$624,000 and HK\$181,000 were credited to the profit and loss account and the revaluation reserve, respectively. Had the Group's leasehold land and buildings situated in Hong Kong been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$7,298,000 (2000: HK\$7,620,000).

12. FIXED ASSETS (continued)

The tenures and locations of the Group's land and buildings are as follows:

	<i>HK\$'000</i>
Held under medium term leases:	
Hong Kong	7,950
PRC other than Hong Kong	79,822
	<u>87,772</u>

The leasehold land and buildings in Hong Kong are pledged to secure general banking facilities granted to the Group (*note 18*).

The net book value of assets held under finance leases included in the total amount of fixed assets at 31 May 2001 amounted to HK\$7,772,000 (2000: HK\$3,471,000).

The investment properties are situated in Hong Kong, held under the following lease terms and are pledged to secure general banking facilities granted to the Group (*note 18*).

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leases	18,150	17,250
Medium term leases	4,450	4,300
	<u>22,600</u>	<u>21,550</u>

The investment properties were revalued on 31 May 2001 by Chung, Chan & Associates, an independent firm of professional valuers, on an open market, existing use basis, at HK\$22,600,000. The revaluation surplus of HK\$1,050,000 resulting from the valuation was credited to the profit and loss account.

13. LONG TERM INVESTMENTS

	2001	Group
	HK\$'000	2000
		HK\$'000
Listed equity investment in Hong Kong, at cost	34,875	–
Unlisted equity investments outside Hong Kong, at cost	125,305	92,205
	160,180	92,205

The market value of the Group's investment in Gold Wo International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited on 12 April 2001, was HK\$41,000,000 as at 31 May 2001.

The particulars of the investee companies are as follows:

Name	Place of incorporation	Class of shares held	Percentage holding	Principal activities
Gold Wo International Holdings Limited	Bermuda	Ordinary	20.5%	Production of melamine and rubber products
I. World Limited	British Virgin Islands	Ordinary	30%	Production of printed circuit boards
Hightor Enterprises Limited* ("Hightor")	British Virgin Islands	Ordinary	23.33%	Development of hardware for electronic products
Slough Technology Limited* ("Slough")	British Virgin Islands	Ordinary	18.72%	Development of website and provision of marketing services

* *These companies were newly acquired during the year.*

13. LONG TERM INVESTMENTS (continued)

The percentage of equity in certain investments above attributable to the Group amounted to over 20%. These investments, however, are not equity-accounted for in accordance with SSAP 10 "Accounting for Investments in Associates" because the directors consider that the Group is not in a position to exercise significant influence over their operations. In the opinion of the directors, the costs of these investments approximate to their fair values as at 31 May 2001. The results of these companies are dealt with in the consolidated profit and loss account to the extent of dividends received from these companies.

14. DEVELOPMENT COSTS

Development costs of the Group represent the costs incurred for the development of digital cameras.

	<i>HK\$'000</i>
Cost:	
At beginning of year	1,161
Additions	4,163
Disposal of a subsidiary	(1,047)
	4,277
At 31 May 2001	4,277
Amortisation:	
At beginning of year	–
Provided during the year	509
	509
At 31 May 2001	509
Net book value:	
At 31 May 2001	3,768
At 31 May 2000	1,161

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	58,971	58,971
Due from subsidiaries	265,416	164,816
	324,387	223,787

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and principal operations	Issued/ registered share capital/ paid-up capital	Equity interests attributable to the Company	Principal activities
<i>Directly held</i>				
Holyworld Group Limited	British Virgin Islands	Ordinary US\$206	100%	Investment holding
<i>Indirectly held</i>				
Yue Fung Development Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred* HK\$5,000,000	100%	Manufacture and sale of electronic calculators, PDAs and other electronic products
Gold Asia Realty Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred* HK\$2	100%	Investment holding

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and principal operations	Issued/ registered share capital/ paid-up capital	Equity interests attributable to the Company	Principal activities
<i>Indirectly held</i> (continued)				
Dongguan Gold Asia Realty Electronics Co., Ltd.	People's Republic of China	Registered HK\$5,750,000	100%	Property holding
Supercam Cybertech Limited (formerly Radar Sources Limited)	Hong Kong	Ordinary HK\$4,000	100%	Manufacture and sale of digital cameras
Selected Choice Investments Limited ("Selected Choice")	Incorporated in British Virgin Islands and operated in Hong Kong	Ordinary US\$1	100%	Development of software

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.

* *The non-voting deferred shares carry no rights to dividends, no rights to vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up (other than the amount paid-up on those shares and one half of the balance of the assets, provided that the holders of the ordinary shares of that company have received, by way of a distribution in such winding-up, a sum of HK\$100,000,000,000 in respect of each ordinary share).*

Notes to Financial Statements *(continued)*

31 May 2001

16. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	67,301	46,125
Work in progress	2,703	7,160
Finished goods	13,362	14,020
	<hr/> 83,366 <hr/>	<hr/> 67,305 <hr/>

17. ACCOUNTS AND BILLS RECEIVABLE

The aged analysis of the accounts and bills receivable is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current to three months	30,010	28,989
Four to six months	1,749	–
Seven to twelve months	326	–
	<hr/> 32,085 <hr/>	<hr/> 28,989 <hr/>

The credit terms granted by the Group are normally less than 90 days.

18. INTEREST-BEARING BANK BORROWINGS

	2001	Group
	HK\$'000	2000
		HK\$'000
Bank overdrafts, secured	10,134	8,221
Trust receipt loans, secured	89,918	68,186
Long term bank loans, secured	10,125	12,375
	110,177	88,782
Long term bank loans repayable:		
Within one year	2,250	2,250
In the second year	2,250	2,250
In the third to fifth years, inclusive	5,625	7,875
	10,125	12,375
Portion classified as current liabilities	(2,250)	(2,250)
Non-current portion	7,875	10,125

The Group's trust receipt loans are repayable within one year.

The bank overdrafts, trust receipt loans and long term bank loans are secured by fixed deposits amounting to HK\$10,030,000 (2000: HK\$18,821,000) and all of the Group's leasehold land and buildings and investment properties situated in Hong Kong.

19. ACCOUNTS PAYABLE

The aged analysis of the accounts payable is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current to three months	7,070	15,215
Four to six months	7,093	4,650
Seven to twelve months	313	111
	<hr/> 14,476 <hr/>	<hr/> 19,976 <hr/>

20. FINANCE LEASE PAYABLES

There were commitments under finance leases at the balance sheet date as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Amount payable:		
Within one year	2,699	1,237
In the second year	1,988	754
In the third to fifth years, inclusive	769	–
	<hr/> 5,456 <hr/>	<hr/> 1,991 <hr/>
Total minimum lease payments	5,456	1,991
Less: future finance charges	(521)	(162)
	<hr/> 4,935 <hr/>	<hr/> 1,829 <hr/>
Total net finance lease payables	4,935	1,829
Less: portion classified as current liabilities	(2,358)	(1,106)
	<hr/> 2,577 <hr/>	<hr/> 723 <hr/>
Non-current portion of finance lease payables	2,577	723

21. DEFERRED TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	3,292	3,292
Charge for the year <i>(note 9)</i>	2,256	–
	<hr/>	<hr/>
At end of year	5,548	3,292
	<hr/>	<hr/>

Deferred tax has been provided for, under the liability method, at the rate of 16% (2000: 16%) on the significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. The Group's provision for deferred tax is principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The revaluations of the Group's investment properties and leasehold land and buildings situated in Hong Kong do not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company did not have any significant unprovided deferred tax liabilities as at 31 May 2001 (2000: Nil).

22. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each		
(2000: 5,000,000,000 ordinary shares of HK\$0.10 each)	500,000	500,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
963,200,000 ordinary shares of HK\$0.01 each		
(2000: 483,200,000 ordinary shares of HK\$0.10 each)	9,632	48,320
	<hr/>	<hr/>

22. SHARE CAPITAL *(continued)*

During the year, the following movements in the Company's authorised and issued share capital were recorded:

- (a) Pursuant to a special resolution passed in the special general meeting of members on 14 June 2000, a total of 120,000,000 shares were issued at an issue price of HK\$0.52 per share on 15 June 2000, as partial consideration in exchange for the 35% equity interest in Supercam Data, Inc. ("Supercam Data").
- (b) Pursuant to a subscription agreement between the Company and Simply Noble Limited on 24 August 2000, Simply Noble Limited subscribed a total of 60,000,000 shares of HK\$0.10 each of the Company at an issue price of HK\$0.15 per share on 7 September 2000.
- (c) Pursuant to a special resolution passed in the special general meeting of members on 8 January 2001, a total of 300,000,000 shares were issued at an issue price of HK\$0.10 per share, as consideration in exchange for 18.72% equity interest in Slough Technology Limited ("Slough") (*note 13*).
- (d) On 14 May 2001, the shareholders of the Company approved a special resolution in relation to the capital reduction and subdivision which were effected in the following manner:
 - (i) the issued share capital of the Company was reduced by HK\$86,688,000 from HK\$96,320,000 to HK\$9,632,000 by cancelling HK\$0.09 of the issued and fully paid capital standing to the credit of each ordinary share then in issue. The nominal value of each such ordinary share was therefore reduced to HK\$0.01;
 - (ii) each of the authorised, but unissued shares of the Company (which included, without limitation, those unissued shares resulting from the capital reduction pursuant to (i) above) was sub-divided into 10 shares. The authorised share capital of the Company remained as HK\$500,000,000, as it was before the capital reduction and subdivision, but now consists of 50,000,000,000 shares of HK\$0.01 each; and
 - (iii) the credit arising from the capital reduction pursuant to (i) above, in the amount of HK\$86,688,000, was applied to the contributed surplus account of the Company.

22. SHARE CAPITAL (continued)

A summary of the above movements in the authorised and issued share capital of the Company is as follows:

	<i>Notes</i>	Number of ordinary shares of HK\$0.10 each '000	Number of ordinary shares of HK\$0.01 each '000	Amount HK\$'000
Authorised:				
At beginning of year		5,000,000	–	500,000
Subdivision of shares under the capital reduction	<i>(d)</i>	<u>(5,000,000)</u>	<u>50,000,000</u>	<u>–</u>
At 31 May 2001		<u>–</u>	<u>50,000,000</u>	<u>500,000</u>
Issued and fully paid:				
At beginning of year		483,200	–	48,320
Shares issued as consideration for acquisition of equity interest in Supercam Data	<i>(a)</i>	120,000	–	12,000
Subscription of 60,000,000 new shares on 7 September 2000	<i>(b)</i>	60,000	–	6,000
Shares issued as consideration for acquisition of equity interest in Slough	<i>(c)</i>	300,000	–	30,000
Capital reduction	<i>(d)</i>	<u>(963,200)</u>	<u>963,200</u>	<u>(86,688)</u>
At 31 May 2001		<u>–</u>	<u>963,200</u>	<u>9,632</u>

22. SHARE CAPITAL *(continued)*

Share options

Pursuant to the share option scheme adopted on 15 May 1997, the board of directors may, on or before 14 May 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 in 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 which has been duly allotted and issued.

On 18 April 2001, a total of 23,200,000 share options were granted to non-director employees of the Group at nil consideration to subscribe for a total of 23,200,000 ordinary shares of the Company at an exercise price of HK\$0.039 per share, subject to adjustment. These share options are exercisable within 2 years from 18 April 2002.

Notes to Financial Statements (continued)

31 May 2001

23. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 June 1999	23,761	4,802	–	–	101,232	129,795
Net profit for the year	–	–	–	–	20,231	20,231
Exercise of share options	7,150	–	–	–	–	7,150
Subscription of new shares	26,312	–	–	–	–	26,312
Share issue expenses	(1,428)	–	–	–	–	(1,428)
Shares issued as consideration for acquisition of equity interests in long term unlisted investments	61,000	–	–	–	–	61,000
At 31 May 2000 and 1 June 2000	116,795	4,802	–	–	121,463	243,060
Net profit for the year	–	–	–	–	41,194	41,194
Subscription of new shares (note 22)	3,000	–	–	–	–	3,000
Share issue expenses	(651)	–	–	–	–	(651)
Shares issued as consideration for acquisition of equity interest in Supercam Data (note 22)	50,400	–	–	–	–	50,400
Goodwill arising on acquisition of a subsidiary	–	–	(37,981)	–	–	(37,981)
Surplus on revaluation of leasehold land and buildings (note 12)	–	–	–	181	–	181
Capital reduction (note 22)	–	86,688	–	–	–	86,688
At 31 May 2001	169,544	91,490	(37,981)	181	162,657	385,891

23. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 June 1999	23,761	58,771	97	82,629
Net loss for the year	–	–	(53)	(53)
Exercise of share options	7,150	–	–	7,150
Subscription of new shares	26,312	–	–	26,312
Share issue expenses	(1,428)	–	–	(1,428)
Shares issued as consideration for acquisition of equity interests in long term unlisted investments	61,000	–	–	61,000
At 31 May 2000 and 1 June 2000	116,795	58,771	44	175,610
Net loss for the year	–	–	(149)	(149)
Subscription of new shares (note 22)	3,000	–	–	3,000
Share issue expenses	(651)	–	–	(651)
Shares issued as consideration for acquisition of equity interest in Supercam Data (note 22)	50,400	–	–	50,400
Capital reduction (note 22)	–	86,688	–	86,688
At 31 May 2001	169,544	145,459	(105)	314,898

The contributed surplus of the Group of HK\$4,802,000 represents the difference between the aggregate of the nominal value of the share capital of the subsidiaries acquired at the date of acquisition, over the nominal value of the share capital of the Company issued in exchange therefor and issued on incorporation. The remaining of HK\$86,688,000 arose from the capital reduction as set out in note 22(d).

The contributed surplus of the Company of HK\$58,771,000 represents the excess of the then combined net assets of the subsidiaries acquired at the date of acquisition over the aggregate of the nominal value of the Company's shares in exchange therefor. The remaining of HK\$86,688,000 arose from the capital reduction as set out in note 22(d).

Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	55,754	31,613
Depreciation	20,926	17,451
Amortisation of development costs	509	–
Interest income	(1,120)	(860)
Revaluation deficit/(surplus) of leasehold land and buildings situated in Hong Kong	(624)	624
Revaluation deficit/(surplus) of investment properties	(1,050)	104
Gain on disposal of subsidiaries	(3,628)	–
Increase in inventories	(20,137)	(9,665)
Increase in accounts and bills receivable	(3,096)	(2,546)
Decrease/(increase) in prepayments, deposits and other receivables	1,416	(1,605)
Increase/(decrease) in accounts payable	(5,567)	3,649
Decrease in accrued liabilities and other payables	(803)	(793)
Increase/(decrease) in trust receipt loans with original maturity of more than three months	12,743	(34,366)
	<hr/>	<hr/>
Net cash inflow from operating activities	55,323	3,606
	<hr/>	<hr/>

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of a subsidiary

	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Development costs	200	–
Prepayment, deposits and other receivables	71	–
Cash and bank balances	5	–
Accounts payable	(67)	–
Other payables	(215)	–
	<hr/>	<hr/>
	(6)	–
Goodwill on acquisition eliminated against reserves	37,981	–
	<hr/>	<hr/>
	37,975	–
	<hr/>	<hr/>
Satisfied by:		
Equity interests of a long term investment	37,975	–
	<hr/>	<hr/>
Net inflow of cash and cash equivalents	5	–
	<hr/>	<hr/>

The subsidiary acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit after tax for the year.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	167	–
Development costs	1,047	–
Inventories	4,076	–
Prepayments and deposits	152	–
Cash and bank balances	103	–
Loan from a previous fellow subsidiary	(6,424)	–
Tax	(2,338)	–
	<hr/>	<hr/>
	(3,217)	–
Gain on disposal	3,628	–
	<hr/>	<hr/>
	411	–
	<hr/>	<hr/>
Satisfied by:		
Cash consideration	411	–
Cash and bank balances disposed of	(103)	–
	<hr/>	<hr/>
Net inflow of cash and cash equivalents	308	–
	<hr/>	<hr/>

The subsidiaries disposed of contributed HK\$17,852,000 to the Group's investing activities and contributed HK\$15,037,000 to the Group's net operating cash flows. The subsidiaries disposed of had no significant impact in respect of financing activities, net returns on investments and servicing of finance, and tax.

The results of the subsidiaries had no significant impact on the turnover or the consolidated profit after tax for the year.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of changes in financing during the year

	Share capital and share premium account HK\$'000	Convertible note HK\$'000	Long term bank loans HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000
At 1 June 1999	49,761	-	16,768	2,680	-
Net cash inflow/(outflow) from financing activities	40,354	-	(4,393)	(1,871)	5
Issue of shares for acquisition of long term investments	75,000	-	-	-	-
Inception of new finance leases	-	-	-	1,020	-
At 31 May 2000 and 1 June 2000	165,115	-	12,375	1,829	5
Net cash inflow/(outflow) from financing activities	8,349	-	(2,250)	(2,308)	-
Issue of convertible note (note 27)	-	20,000	-	-	-
Repayment of convertible note (note 27)	-	(20,000)	-	-	-
Issue of shares for acquisition of long term investments (note 22)	92,400	-	-	-	-
Inception of new finance leases	-	-	-	5,414	-
Capital reduction (note 22)	(86,688)	-	-	-	-
Share of loss for the year of a subsidiary	-	-	-	-	(5)
At 31 May 2001	179,176	-	10,125	4,935	-

(e) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$5,414,000 (2000: HK\$1,020,000).
- (ii) During the year, 420,000,000 new shares of the Company were issued at a consideration value of HK\$92,400,000, as part of the purchase consideration for the acquisition of equity interests in Supercam Data and Slough (note 22).

25. COMMITMENTS

As at the balance sheet date, the Group had the following outstanding commitments not provided for in the financial statements:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	–	130
In the second to fifth years, inclusive	164	–
	<hr/>	<hr/>
(b) Capital commitments contracted, but not provided for	–	5,230
Capital commitments authorised, but not contracted for	–	3,000
	<hr/>	<hr/>
	–	8,230
	<hr/>	<hr/>

The Company did not have any significant commitments at the balance sheet date (2000: Nil).

26. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to a subsidiary	<hr/>	<hr/>	<hr/>	<hr/>
	–	–	212,413	181,413
	<hr/>	<hr/>	<hr/>	<hr/>

Apart from the above, the Company and the Group had no other material contingent liabilities at the balance sheet date. At the balance sheet date, banking facilities were utilised to the extent of HK\$110,177,000 (2000: HK\$88,782,000).

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with connected and/or related parties:

Nature of transaction	2001 HK\$'000	2000 <i>HK\$'000</i>
Purchases of printed circuit boards	6,465	1,475
Purchases of silicon rubber keypads	6,220	1,786

The above purchases were made from certain subsidiaries of the Group's investee companies at prices and conditions similar to those offered to other customers of the related parties.

In addition to the above, on 23 August 2000, the Company entered into a conditional subscription agreement with Simply Noble Limited, a substantial shareholder of the Company which is beneficially owned by Messrs. Lee Wing Kan and Lee Wing Chan, directors of the Company. Under this agreement, Simply Noble Limited agreed to subscribe in cash for a HK\$20,000,000 convertible note ("Note") to be issued at par by the Company at nil interest charge. The Note was issued on 6 October 2000 and fully repaid on 25 May 2001. No conversion of the Company's ordinary shares was noted during the year. The transaction also constituted a connected transaction under the Listing Rules.

28. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 8 June 2001, the Company entered into a conditional subscription agreement with Simply Noble Limited, a substantial shareholder of the Company which is beneficially owned by Messrs. Lee Wing Kan and Lee Wing Chan, directors of the Company. Under this agreement, Simply Noble Limited agreed to subscribe in cash for 192,072,000 new shares of the Company at a subscription price of HK\$0.09 per share. Pursuant to a directors' resolution on 15 June 2001, 192,072,000 new shares of the Company were duly allotted and issued for cash, generating a cash inflow of approximately HK\$17 million before share issue expenses.

- (b) Pursuant to a directors' resolution passed on 31 August 2001, the Company raised approximately HK\$121 million, before share issue expenses, by way of a rights issue of 3,465,816,000 rights shares of HK\$0.01 each of the Company at a subscription price of HK\$0.035 per rights share, on the basis of one rights share for every three existing shares held by shareholders whose name appeared on the register on 14 August 2001. The net proceeds of the rights issue will be used for working capital purposes.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 September 2001.