

NOTES TO FINANCIAL STATEMENTS

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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, video, and telecommunications 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 the 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 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.

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:

- 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; 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 impairments in values, other than those considered to be temporary in nature, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

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. 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.

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	3 years
Moulds, plant and machinery	3 years
Furniture, office equipment and motor vehicles	3 years

In prior years, leasehold improvements, moulds, plant and machinery, and furniture, office equipment and motor vehicles were depreciated over their then estimated useful lives of 5 years. During the year, the estimated useful lives for the remaining items have been revised to 3 years. In the opinion of the directors, the useful lives of these assets are more accurately reflected by the adoption of the revised estimate. Had their estimated useful lives remained unchanged from the previous year, the depreciation charges for the year would have been reduced by approximately HK\$12.1 million.

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.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows.

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.

Investments

- (i) Held-to-maturity securities are redeemable at fixed dates, are 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 impairment are made when carrying amounts are not expected to be recovered and are charged to the profit and loss account for the period in which they arise.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments *(Continued)*

- (ii) Investment securities are investments in 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) Securities investments, other than investment securities and held-to-maturity securities, are classified as other investments and are carried at their fair values, which represent the market prices or quoted market prices as at the balance sheet date. The unrealised gains or losses arising from changes in the fair values of the other investments are included in the profit and loss account for the period in which they arise.
- (iv) Equity-linked bonds are debt securities with a residual maturity within one year, whose return is 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 in the underlying 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 their purchase price and the Nominal Value at the maturity date. Where a loss on redemption is anticipated due to the quoted market price of the particular reference equity at the balance sheet date having fallen below the Nominal Value, provisions are made for any portion of the bonds' carrying value which is 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.

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.

Pension schemes

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. The MPF Scheme became effective from 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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 until its realisation is assured beyond reasonable doubt.

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 amounts in the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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.

For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted to use.

3. RELATED PARTY TRANSACTIONS

During the year, the Group paid rental expenses of HK\$480,000 (2000: HK\$960,000) to a related company in which Mr. Chow Tak Hung, a director and substantial shareholder of the Company, also holds a directorship and a beneficial shareholding. The rental was paid in respect of a director's quarters and has been included as part of the directors' remuneration detailed in note 6 to the financial statements. The monthly rental was determined with reference to open market rentals in respect of similar leased premises.

Details of personal guarantee executed by a director of the Company for the benefit of the Group are set out in note 19 to the financial statements.

4. TURNOVER

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

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5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	138,803	133,217
Auditors' remuneration	601	550
Depreciation	24,764	14,287
Staff costs (including directors' remuneration – note 6)		
Salaries and wages	28,778	30,944
Pension scheme contributions	394	–
	29,172	30,944
Operating lease rentals on land and buildings	269	340
Provision for obsolete and slow-moving inventories	460	2,364
Provision for bad and doubtful debts	3,032	1,791
Deficit on revaluation of leasehold land and buildings	5,564	14,040
Deficit on revaluation of investment properties	–	770
Loss on write off of fixed assets	1,232	–
Exchange losses, net	512	–
Unrealised loss on listed equity investment	856	–
Unrealised gain on unlisted debt securities	(506)	–
Loss/(gain) on disposal of fixed assets	(8)	262
Interest income	(5,969)	(6,320)

The cost of inventories sold includes an amount of HK\$38,943,000 (2000: HK\$40,260,000) relating to direct staff costs, provision for obsolete and slow-moving inventories and depreciation of the manufacturing assets, which are also included in the respective total amounts disclosed above for each of these types of expense.

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	300	240
Others emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,520	5,360
Pension scheme contributions	45	–
	4,865	5,600

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6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

In addition to the above remuneration, a total of 18,500,000 share options to subscribe for ordinary shares in the Company were granted to the directors of the Company during the year. 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 the share options granted. Accordingly, no value has been included in the directors' remuneration in respect of the share options granted during the year.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	8	5
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	2	–
HK\$2,000,001 – HK\$2,500,000	–	1

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

The five highest paid employees during the year included three (2000: four) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining non-director, highest paid employees are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	3,384	1,086
Pension scheme contributions	18	–
	3,402	1,086

	Number of employees	
	2001	2000
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	2	–

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2000: Nil).

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest expense on secured bank loan	272	–

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8. TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Current:		
Hong Kong	573	136
Overseas	-	2,901
Underprovision/(Overprovision) in prior years	(512)	16
Deferred tax	-	(361)
Tax charge for the year	61	2,692

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.

No provision for overseas profit tax has been made as the Group did not generate any assessable profits arising in the overseas countries in which the Group operates during the year. During the year ended 30 September 2000, taxes on profits assessable elsewhere were 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") was exempted from income tax for two years starting from its first profitable year of operation in 1995 and was entitled to a 50% relief from income tax for the following three years under the Income Tax Law of the PRC. The tax concession expired in the prior year. During the current year, no provision for PRC income tax was made for this subsidiary as it did not generate any assessable profits arising in the PRC.

The movements in the provision for deferred tax were as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	-	361
Write back for the year	-	(361)
At end of year	-	-

The principal components of the deferred tax assets of the Group and the Company not recognised at the balance sheet date were as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Excess of tax allowances over depreciation	(1,706)	(259)
Tax losses carried forward	(518)	(464)
Total	(2,224)	(723)

8. TAX (Continued)

	Company	
	2001 HK\$'000	2000 HK\$'000
Tax losses carried forward	(518)	(464)

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

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company was HK\$24,855,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$18,368,000).

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$24,855,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$1,456,000) and the weighted average number of 56,000,000 (2000: 56,000,000) ordinary shares in issue during the year, as adjusted for the consolidation of the share capital of the Company subsequent to the balance sheet date as detailed in note 20 to the financial statements.

No diluted loss per share is shown for the year ended 30 September 2001 as the effect of the Company's share options granted on 5 October 2000, which were outstanding during the year, was anti-dilutive. In addition, the exercise price of the share options granted on 16 February 2000, which were outstanding during the year, was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic loss per share.

No diluted earnings per share has been shown for the year ended 30 September 2000 because the exercise price of the share options outstanding during that year 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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11. FIXED ASSETS

Group

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Moulds, plant and machinery <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At beginning of year	3,230	27,200	15,800	85,155	6,431	137,816
Additions	–	405	–	4,015	53	4,473
Disposals	(3,230)	–	–	(480)	(7)	(3,717)
Write off	–	–	(8,774)	(3,697)	–	(12,471)
Deficit on revaluation	–	(6,205)	–	–	–	(6,205)
At 30 September 2001	–	21,400	7,026	84,993	6,477	119,896
Accumulated depreciation:						
At beginning of year	–	–	12,618	64,119	4,884	81,621
Provided during the year	–	641	3,182	19,361	1,580	24,764
Disposals	–	–	–	(467)	–	(467)
Write off	–	–	(8,774)	(2,465)	–	(11,239)
Reversal upon revaluation	–	(641)	–	–	–	(641)
At 30 September 2001	–	–	7,026	80,548	6,464	94,038
Net book value:						
At 30 September 2001	–	21,400	–	4,445	13	25,858
At 30 September 2000	3,230	27,200	3,182	21,036	1,547	56,195
Analysis of cost or valuation:						
At cost	–	–	–	4,445	13	4,458
At 30 September 2001 valuation	–	21,400	–	–	–	21,400
	–	21,400	–	4,445	13	25,858

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11. FIXED ASSETS (Continued)

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

	2001 HK\$'000	2000 HK\$'000
Held in Hong Kong under medium term leases	8,200	9,400
Held outside Hong Kong under medium term leases	13,200	17,800
	21,400	27,200

At 30 September 2001, the Group's leasehold land and buildings located in Hong Kong were revalued on an open market, existing use basis by Castores Magi International Limited ("CMIL"), an independent firm of professional valuers, at HK\$8,200,000. A deficit of HK\$1,396,000 arising therefrom has been charged to the profit and loss account (note 5).

At 30 September 2001, the Group's leasehold land and buildings located in the PRC were revalued on an open market, existing use basis by CMIL, at HK\$13,200,000. A deficit of HK\$4,168,000 arising therefrom has been charged to the profit and loss account (note 5).

Had the leasehold land and buildings been stated at cost less accumulated depreciation, the carrying amount as at 30 September 2001 would have been HK\$46,955,000 (2000: HK\$47,556,000).

12. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	28,434	28,434
Long term loan to a subsidiary	35,000	35,000
Provisions	(45,309)	(22,090)
	18,125	41,344

The long term loan to a subsidiary is unsecured, interest-free and the Company has undertaken not to demand payment of the amount involved within one year from 30 September 2001.

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

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12. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Equity interests attributable to the Company		Principal activities
			2001	2000	
Directly held					
M S C Holdings Limited	British Virgin Islands	US\$6,000	100%	100%	Investment holding
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	US\$1,000	100%	100%	Dormant
Topsy International Limited	British Virgin Islands	US\$1,000	100%	100%	Dormant
Binsak Trading Limited	British Virgin Islands	US\$1,000	100%	100%	Dormant
M S C China Limited	British Virgin Islands	US\$1,000	100%	100%	Dormant
Morning Star (Dongguan) Electronic Co., Ltd.	PRC	HK\$35,110,000	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
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
Morning Star Electronics (S) Pte Ltd.	Singapore	S\$200,000	70%	–	Trading of switches, jacks, sockets and speaker terminals

13. INVESTMENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Long term investments				
Listed held-to-maturity securities, at amortised cost	-	55,887	-	55,887
Investment securities, at cost:				
Equity securities, unlisted	650	650	-	-
Deposits for the acquisition of investment securities, at cost	650	-	-	-
	1,300	56,537	-	55,887
Short term investments				
Equity-linked bonds	-	7,731	-	7,731
Other investments, at fair value:				
Debt securities, unlisted	20,985	-	-	-
Overseas listed equity investments	3,273	-	-	-
	24,258	7,731	-	7,731

The fair value of the unlisted debt securities was determined based on quoted market prices.

Equity-linked bonds were debt securities with the return of which is linked to the share price performance of a certain Hong Kong or overseas listed reference equity.

Held-to-maturity securities represent investment in bonds listed on the New York Stock Exchange, Inc. During the year, held-to-maturity securities with an amortised cost of HK\$55,887,000 (2000: Nil) were disposed of at their carrying values in response to the directors' revised risk assessment in the United States of America.

14. LONG TERM DEPOSIT

The balance represents a deposit paid in respect of the acquisition of certain land and buildings located in Hong Kong, which was still under development as at the date of this report.

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15. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	2,109	4,531
Work in progress	1,823	3,923
Finished goods	1,489	2,531
	5,421	10,985

At 30 September 2001, no inventories were stated at net realisable value (2000: Nil).

16. ACCOUNTS RECEIVABLE

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Current – 3 months	36,513	46,674
4 – 6 months	2,915	6,445
7 – 12 months	–	20
	39,428	53,139

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.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	12,194	13,327	76	6,144
Time deposits	75,742	18,801	–	7,228
	87,936	32,128	76	13,372

18. ACCOUNTS PAYABLE

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Current – 3 months	4,771	12,725
4 – 6 months	1	260
7 – 12 months	9	–
	4,781	12,985

19. BANKING FACILITIES

	2001 HK\$'000	2000 HK\$'000
Secured bank loan repayable:		
Within one year	887	–
In the second year	897	–
In the third to fifth years, inclusive	2,888	–
After five years	4,842	–
	9,514	–
Portion classified as current liabilities	(887)	–
Long term portion	8,627	–

At 30 September 2001, the banking facilities of the Group were supported by:

- (i) the pledges of certain fixed deposits of the Group of HK\$4,032,000 (2000: HK\$9,460,000);
- (ii) the pledge of the long term deposit for the acquisition of certain land and buildings of the Group (note 14); and
- (iii) personal guarantee executed by one of the directors of the Company.

20. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
280,000,000 ordinary shares of HK\$0.10 each	28,000	28,000

Subsequent to the balance sheet date, on 9 November 2001, pursuant to an ordinary resolution passed in a special general meeting of the Company, every five shares of HK\$0.10 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$0.50 each in the share capital of the Company. As a result, the Company's authorised share capital was consolidated from 1,000,000,000 shares of HK\$0.10 each into 200,000,000 shares of HK\$0.50 each, while the Company's issued share capital was consolidated from 280,000,000 shares of HK\$0.10 each into 56,000,000 shares of HK\$0.50 each. All of the shares, after adjustment for the consolidation of share capital, rank pari passu with each other in all respects.

Share options

Pursuant to the share option scheme adopted on 18 March 1997, 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 for the five trading days immediately preceding the date of the offer of the options 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.

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20. SHARE CAPITAL (Continued)

(i) OPTIONS GRANTED ON 16 FEBRUARY 2000

On 16 February 2000, 4,500,000 share options were granted to certain employees, which entitled them to subscribe for a total of 4,500,000 ordinary shares of the Company. The share options were 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 capital structure of the Company existing at the balance sheet date, have resulted 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 at the date of this report, all of these share options remained outstanding.

As a result of the consolidation of share capital subsequent to the balance date on 9 November 2001, as described above, the number of options exercisable and the exercise price of the options were adjusted from 4,500,000 share options to 900,000 share options, and from HK\$0.535 to HK\$2.675 per share option, respectively.

(ii) OPTIONS GRANTED ON 5 OCTOBER 2000

On 5 October 2000, 18,500,000 share options were granted to certain of the Company's directors, which entitled 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 capital structure of the Company existing at the balance sheet date, have resulted 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 balance sheet date and at the date of this report, all of these share options remained outstanding.

As a result of the consolidation of share capital subsequent to the balance sheet date on 9 November 2001, as described above, the number of options exercisable and the exercise price of the options were adjusted from 18,500,000 share options to 3,700,000 share options, and from HK\$0.244 to HK\$1.22 per share option, respectively.

21. RESERVES

	Share premium account <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1 October 1999	31,986	1,294	39,849	69,349	142,478
Revaluation deficit on fixed assets	–	(1,294)	–	–	(1,294)
Net profit for the year	–	–	–	1,456	1,456
At 30 September 2000 and at 1 October 2000	31,986	–	39,849	70,805	142,640
Net loss for the year	–	–	–	(24,855)	(24,855)
At 30 September 2001	31,986	–	39,849	45,950	117,785
Company					
At 1 October 1999	31,986	–	63,234	29,052	124,272
Net profit for the year	–	–	–	18,368	18,368
At 30 September 2000 and at 1 October 2000	31,986	–	63,234	47,420	142,640
Net loss for the year	–	–	–	(24,855)	(24,855)
At 30 September 2001	31,986	–	63,234	22,565	117,785

21. RESERVES (Continued)

The contributed surplus of the Group arose as a result of the Group reorganisation in 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

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

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	(24,733)	4,148
Depreciation	24,764	14,287
Deficit on revaluation of leasehold land and buildings and investment properties	5,564	14,810
Interest income	(5,969)	(6,320)
Unrealised gain on unlisted debt securities	(506)	–
Unrealised loss on listed equity investment	856	–
Loss/(gain) on disposal of fixed assets	(8)	262
Loss on write off of fixed assets	1,232	–
Provision for obsolete and slow-moving inventories	460	2,364
Provision for bad and doubtful debts	3,032	1,791
Decrease/(increase) in inventories	5,104	(4,950)
Decrease/(increase) in accounts receivable	10,679	(11,711)
Decrease/(increase) in prepayments, deposits and other receivables	5,777	(7,671)
Increase/(decrease) in accounts payable	(8,204)	3,728
Increase in accrued liabilities and other payables	1,910	8,251
Net cash inflow from operating activities	19,958	18,989

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22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank loan HK\$'000	Minority interests HK\$'000
At 1 October 2000	–	–
Share of net loss	–	(211)
Net cash inflow from financing	9,514	270
At 30 September 2001	9,514	59

23. COMMITMENTS

- (a) At 30 September 2001, the Group had a capital commitment of approximately HK\$2,509,000 (2000: Nil) in respect of the acquisition of plant and machinery.
- (b) The total future minimum lease payments in respect of non-cancellable operating leases committed at the balance sheet date to be made by the Group were as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Land and buildings expiring within one year	35	149

The Company had no significant commitments at the balance sheet date (2000: Nil).

24. POST BALANCE SHEET EVENT

An ordinary resolution was passed in a special general meeting held on 9 November 2001 for a 5 for 1 consolidation of the Company's shares. Details of the consolidation of share capital are set out in note 20 to the financial statements.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 December 2001.