

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company on 18 August 1998. The shares of the Company were primarily listed on the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and were secondarily listed on the main board of The Stock Exchange of Singapore Limited (the "Singapore Stock Exchange") on 3 September 1999.

During the year, the Company's principal activity was investment holding. The principal activities of the subsidiaries consisted of the design, development, manufacture and sale of a wide range of (1) electronics and related components and parts (including principally quartz crystals, liquid crystal displays, printed circuit boards and watch movements) and (2) consumer electronic products (including principally electronic calculators, electronic watches, clocks and personal data assistants). They were also engaged in the trading of electronics and related components and parts, particularly, Russian-made integrated circuits. There were no significant changes in the nature of the Company's and the Group's principal activities during the year.

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 14 "Leases" has been adopted for the first time in the preparation of the current year's financial statements.

SSAP 14 prescribes the appropriate accounting policies and disclosures to apply in relation to finance and operating leases for lessees and lessors. The principal impact of the SSAP 14 on the preparation of these financial statements is that all future minimum lease payments under non-cancellable operating leases are disclosed in the note to these financial statements. Under this SSAP, the finance leases are analysed into both the total minimum lease payments and their present values in the note to these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment property and certain fixed assets, as further explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of presentation and consolidation

The consolidated financial statements include the audited financial statements of the Company and 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.

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.

Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

Fixed assets and depreciation

Fixed assets, other than investment property and construction in progress, 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Changes in the values of fixed assets, other than investment property, are dealt with as movements in the 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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

Land held in the People's Republic of China (the "PRC")	Over the period of land use rights
Leasehold land held in Hong Kong under medium term leases	Over the remaining lease terms
Buildings	2% - 5%
Leasehold improvements	10%
Plant, machinery and office equipment	10%
Moulds	10%
Motor vehicles	10%
Furniture and fixtures	10%

Construction in progress represents buildings, structures and plant and machinery under construction or installation, and is stated at cost and is not depreciated. Cost comprises direct costs of construction, installation and testing, and interest charges on related borrowed funds during the periods of construction or installation. Construction in progress is transferred to fixed assets when completed and ready for use.

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 at the time of disposal, and is recognised in the profit and loss account.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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 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.

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 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 equity securities, which are intended to be held on a continuing basis for 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 down 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. 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 and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue less amounts subsequently converted into shares.

The net proceeds represent the consideration received on the issue of bonds after deduction of issuing costs. Issuing costs which comprise costs incurred directly in connection with the issue of bonds are amortised on a straight-line basis over the term of the bonds which is the earliest date at which the bonds would be redeemed.

When bonds are converted into shares, the amount recognised in respect of the shares issued upon conversion is the amount at which the liability of the bond is stated as at the date of conversion less the related unamortised issuing costs attributable to the bonds converted.

Interests on convertible bonds and premium paid on early redemption of convertible bonds as explained in note 22 are recognised as an expense in the period in which it is incurred.

Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on the straight-line basis over the lease terms;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (d) sale of property, when the legally binding sales contract is signed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are 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.

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.

Borrowing costs

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

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 and an associate denominated in foreign currencies are translated to Hong Kong dollars for inclusion in the Group's financial statements at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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 Group's employer contributions are fully and immediately vested in favour of the employees. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

The employees of a subsidiary of the Company in the PRC are members of the state-sponsored retirement scheme operated by the government of the PRC.

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.

4. TURNOVER

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

5. SEGMENTAL INFORMATION

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

	Turnover		Contribution to profit from operating activities	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Electronic calculators	346,632	528,426	1,371	23,228
Electronic watches and clocks	29,067	45,946	951	13,311
Integrated circuits	53,648	94,306	7,507	10,461
Quartz crystals	94,837	185,463	1,572	41,857
Watch movements	68,994	128,590	(879)	10,402
Liquid crystal displays	63,422	101,001	11,209	18,537
Others	5,022	10,541	2,157	1,953
	<u>661,622</u>	<u>1,094,273</u>	<u>23,888</u>	<u>119,749</u>
By geographical area:				
PRC:				
Hong Kong	202,830	274,692	7,405	29,934
Elsewhere	429,339	787,529	15,528	86,208
Other countries	29,453	32,052	955	3,607
	<u>661,622</u>	<u>1,094,273</u>	<u>23,888</u>	<u>119,749</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	551,504	881,716
Depreciation:		
Owned fixed assets	34,267	30,185
Leased fixed assets	42	10
Staff costs (excluding directors' remuneration – note 7(a)):		
Salaries and allowances	115,937	123,770
Pension contributions	1,789	–
	<u>117,726</u>	<u>123,770</u>
Operating lease rentals on land and buildings	736	578
Auditors' remuneration	950	880
Provision for doubtful debts	12,640	15,418
Provision for inventories	20,862	31,818
Research and development costs written off	1,894	532
Revaluation deficit on fixed assets	7,351	600
Exchange losses/(gains), net	(2,297)	1,429
Gain on disposal of fixed assets	(69)	(41)
Interest income	(1,635)	(1,906)
Net rental income	<u>(89)</u>	<u>(205)</u>

The cost of inventories sold includes approximately HK\$133,651,000 (2000: HK\$140,635,000) relating to direct staff costs and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' 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:

(a) Directors' remuneration

	2001 HK\$'000	2000 HK\$'000
Fees	690	880
Basic salaries and other benefits in kind	6,414	5,604
Pension contributions	42	–
	<u>7,146</u>	<u>6,484</u>

The fees include HK\$690,000 (2000: HK\$880,000) payable to the non-executive directors. There were no other emoluments payable to the non-executive directors during the year (2000: Nil).

The number of the directors whose remuneration fell within the designated bands is set out below:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	8	8
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	3	1
	<u>11</u>	<u>11</u>

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

No value is included in directors' remuneration in respect of share options granted in the prior year because, in the absence of a readily available market value of the share options granted on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION*(continued)***(b) Employees' emoluments**

The five highest paid employees during the year included five (2000: four) directors, one of whom was appointed during the year. Details of the remuneration of this director prior to her appointment as director (2000: one of the five highest paid employees) are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries and other benefits in kind	889	932
Pension contributions	8	—
	<u>897</u>	<u>932</u>

8. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans wholly repayable within five years	9,710	8,741
Interest on convertible bonds	2,030	813
Premium on redemption of convertible bonds	1,030	—
Interest on finance leases	38	14
	<u>12,808</u>	<u>9,568</u>

9. TAX

Tax in the consolidated profit and loss account represents:

	2001 HK\$'000	2000 HK\$'000
Provision for tax in respect of profit for the year:		
Hong Kong	1,500	1,877
Overseas	1,000	4,722
Prior years' under/(over)provisions:		
Hong Kong	(441)	(309)
Overseas	473	–
Deferred tax (<i>note 23</i>)	59	281
	<u>2,591</u>	<u>6,571</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. Provisions for tax of profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax has been made for the associate because it did not generate any assessable profits during the year.

In accordance with the applicable enterprise income tax law of the PRC, the Group's previous operating subsidiary, Putian Kangarway Industrial Co. Ltd. ("Putian Kangarway"), which was dissolved according to Chapter VII, Company Merger and Division, of the PRC Company Law immediately after its merger with Xinwei Electronic Industrial Co. Ltd., Fujian ("Fujian Xinwei") on 3 October 1996, was exempt from income tax for its first three profitable years of operations from 1 January 1992 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. In April 1992, an additional tax concession was granted by the local municipal tax bureau under which the assessable profit attributable to the second phase of the capital investment was exempt for a period of three years from 1 January 1994 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. In December 1994, a further additional tax concession was granted by the local municipal tax bureau under which the assessable profit attributable to the third phase of the capital investment was exempt for a period of three years from 1 January 1995 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. The assessable profit of Fujian Xinwei which was attributable to the continuing operations and businesses of Putian Kangarway is entitled to such tax concessions. Any assessable profit arising from the capital injected subsequent to the merger will be entitled to exemption from income tax for the first two profitable years of operations and 50% relief on income tax that would otherwise be charged for the succeeding three years. In August 1999, the fourth phase, which was also the final phase, of the capital investment was injected to Fujian Xinwei. Therefore, the assessable profit attributable to the fourth phase of the capital investment is exempt for a period of two years from 1 October 1999 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years.

9. TAX *(continued)*

As a result, a provision for income tax has been made at the rate of 12%, which is determined after a 50% relief for the assessable profit attributable to Fujian Xinwei for the period from 1 October 1999 to 30 September 2000 in respect of the second phase and the third phase of the capital investment. A tax rate of 24% has been used for the period from 1 October 1999 to 30 September 2000 in respect of the first phase of the capital investment because the 50% relief for this phase expired on 31 December 1998. No provision for income tax has been made for the assessable profit attributable to Fujian Xinwei for the period from 1 October 1999 to 30 September 2001 in respect of the fourth phase of the capital investment.

Pursuant to a further tax concession granted in the prior years, the income tax rate applicable to Fujian Xinwei was reduced from the standard rate of 24% to 15% from 1 October 2000. As a result, a provision for income tax has been made at the rate of 7.5%, which is determined after a 50% relief for the assessable profit attributable to Fujian Xinwei for the period from 1 October 2000 to 31 December 2000 in respect of the second phase of the capital investment and for the year ended 30 September 2001 in respect of the third phase of the capital investment. A tax rate of 15% has been used for the year ended 30 September 2001 in respect of the first phase of the capital investment and for the period from 1 January 2001 to 30 September 2001 in respect of the second phase of the capital investment because the 50% relief for the second phase expired on 31 December 2000.

The provision for deferred tax has been made in respect of accelerated capital allowances to the extent that a liability is expected to crystallise in the foreseeable future. There were no significant potential deferred tax liabilities for the Group and the Company for which provision has not been made as at 30 September 2001.

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$9,249,000 (2000: net loss of HK\$7,838,000).

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\$5,453,000 (2000: HK\$101,236,000) and the weighted average of 1,007,340,008 (2000: 1,000,526,622) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the current year has not been presented because any potential ordinary shares of the Group outstanding during the year in respect of the deemed exercise of all share options and the deemed conversion of all convertible bonds had anti-dilutive effects on the earnings per share for the current year. The calculation of diluted earnings per share for the prior year was based on the net profit attributable to shareholders plus interest expense on convertible bonds of HK\$102,049,000 and the weighted average of 1,024,413,371 shares in issue, which represented the weighted average of 1,000,526,622 shares in issue during that year, plus the weighted average of 9,377,386 shares assumed to be issued at no consideration on the deemed exercise of all options during the prior year; and the weighted average of 14,509,363 shares assumed to have been issued at no consideration on the deemed conversion of all convertible bonds during that year.

12. FIXED ASSETS

Group

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant, machinery and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Construct- ion in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	3,500	143,250	20,007	222,420	16,688	12,167	880	46,110	465,022
Additions	-	7,049	2,432	6,716	1,443	-	-	14,809	32,449
Transfers	-	32,752	547	1,120	-	-	-	(34,419)	-
Disposals	(3,500)	-	-	-	-	-	-	-	(3,500)
Revaluation	-	(8,434)	-	(6,805)	-	(329)	-	-	(15,568)
At 30 September 2001	-	174,617	22,986	223,451	18,131	11,838	880	26,500	478,403
Accumulated depreciation:									
At beginning of year	-	5,223	2,248	61,974	9,601	6,230	517	-	85,793
Provided during the year	-	6,431	2,022	22,817	1,734	1,217	88	-	34,309
Revaluation	-	(11,654)	-	(2,506)	-	(234)	-	-	(14,394)
At 30 September 2001	-	-	4,270	82,285	11,335	7,213	605	-	105,708
Net book value:									
At 30 September 2001	-	174,617	18,716	141,166	6,796	4,625	275	26,500	372,695
At 30 September 2000	3,500	138,027	17,759	160,446	7,087	5,937	363	46,110	379,229
An analysis of cost or valuation:									
At cost	-	-	22,986	-	18,131	-	880	26,500	68,497
At valuation	-	174,617	-	141,166	-	4,625	-	-	320,408
	-	174,617	22,986	141,166	18,131	4,625	880	26,500	388,905

12. FIXED ASSETS *(continued)*

The leasehold land and buildings which are stated at valuation are held under the following lease terms:

	Group HK\$'000
Hong Kong, held under medium term leases	10,100
PRC other than Hong Kong, held under medium term land use rights	164,517
	<u>174,617</u>

The Group's leasehold land and buildings located in Hong Kong were revalued at 30 September 2001 by Chesterton Petty Limited, an independent firm of professional valuers, on an open market value basis based on their existing use, at HK\$10,100,000. The Group's leasehold land and buildings located in the PRC were revalued at 30 September 2001 by Chesterton Petty Limited on a depreciated replacement cost basis, at HK\$164,517,000. A net revaluation deficit of HK\$4,838,000 was charged to the profit and loss account and a net revaluation surplus of HK\$8,058,000 was credited to the revaluation reserve resulting from the revaluations.

The Group's plant, machinery and office equipment, and motor vehicles were revalued at 30 September 2001 by Chesterton Petty Limited, on a depreciated replacement cost basis. Revaluation deficits of HK\$2,513,000 and HK\$1,881,000 resulting from the revaluations were charged to the profit and loss account and debited to revaluation reserve, respectively.

Had the Group's leasehold land and buildings, plant, machinery and office equipment, and motor vehicles been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$150,593,000 (2000: HK\$116,724,000), HK\$144,130,000 (2000: HK\$158,817,000) and HK\$3,451,939 (2000: HK\$4,101,000), respectively.

Included in the total amount of fixed assets at 30 September 2001 is an asset held under finance lease with a net book value of HK\$370,000 (2000: HK\$412,000) and the depreciation charges for the year in respect of such asset amounted to HK\$42,000 (2000: HK\$10,000).

Certain leasehold land and buildings and time deposits of the Group, together with the corporate guarantees of certain related companies and the Company, are used to secure banking facilities of the Group (note 19). At 30 September 2001, such facilities were utilised to the extent of approximately HK\$123,634,000 (2000: HK\$158,933,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	118,577	118,577
Due from subsidiaries	601,267	619,488
Due to a subsidiary	(2)	–
	<u>719,842</u>	<u>738,065</u>

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and principal operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sunway International (BVI) Holdings Limited	British Virgin Islands	US\$50,000	100%	–	Investment holding
Sungo Holding Company Limited	Hong Kong	Ordinary HK\$3 * Non-voting deferred HK\$6,500,000	–	100%	Trading of electronic products
Guidy International Limited	Hong Kong	Ordinary HK\$3 * Non-voting deferred HK\$6,500	–	100%	Trading of electronic products
Xinwei Electronic Industrial Co. Ltd., Fujian	PRC	HK\$152,000,000	–	100%	Manufacture and trading of electronic products
Sunway Information Technology Company Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Wai Tick Technology Limited**	Incorporated in the British Virgin Islands and operated in Hong Kong	US\$1	–	100%	Trading of electronic products

13. INTERESTS IN SUBSIDIARIES *(continued)*

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 holders of non-voting deferred shares are not entitled to any dividend, have no right to vote at general meetings, and carry the right to receive the nominal amount paid-up or credited as paid-up on the non-voting deferred shares in a return of capital on liquidation after the holders of ordinary shares have received the sum of HK\$1,000,000,000 per ordinary share.

** This company was incorporated during the year.

14. INTEREST IN AN ASSOCIATE

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	10,090	5,376
Due from an associate	4,724	4,229
	<u>14,814</u>	<u>9,605</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate are as follows:

Name	Business structure	Place of registration and principal operations	Percentage of equity attributable to the Group	Principal activities
Taiwan Communication (Fujian) Company Limited	Corporate	PRC	40%	Manufacture and trading of telecommunication products

The registered capital of Taiwan Communication (Fujian) Company Limited is US\$5,000,000. As at 30 September 2000, the Group had paid an initial capital injection of US\$1,000,000 (equivalent to approximately HK\$7,750,000), being half of the total contracted investment cost, to Taiwan Communication (Fujian) Company Limited. The remaining capital contribution of US\$1,000,000 was paid up on 3 November 2000.

15. LONG TERM INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted equity investments, outside Hong Kong, at cost	<u>11,625</u>	<u>–</u>

16. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	183,452	231,067
Work in progress	43,956	35,671
Finished goods	<u>63,098</u>	<u>76,484</u>
	290,506	343,222
Less: Provision for obsolescence	<u>(29,818)</u>	<u>(75,059)</u>
	<u>260,688</u>	<u>268,163</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$26,904,000 (2000: HK\$6,724,000).

17. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 3 months	119,081	174,015
4 – 6 months	44,386	69,863
7 – 12 months	47,129	7,713
Over 1 year	<u>31,944</u>	<u>13,879</u>
	242,540	265,470
Less: Provision for doubtful debts	<u>(36,943)</u>	<u>(26,114)</u>
	<u>205,597</u>	<u>239,356</u>

17. ACCOUNTS RECEIVABLE *(continued)***Credit terms**

Payment terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 90 days of issuance, except for certain well established customers, where the terms are extended to six months. Each customer has a maximum credit limit.

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.

18. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

Name	30 September	Maximum outstanding amount during	1 October
	2001 HK\$'000	the year HK\$'000	2000 HK\$'000
Scientek Enterprise (Hong Kong) Limited	<u>1,971</u>	<u>2,551</u>	<u>2,551</u>

Scientek Enterprise (Hong Kong) Limited is controlled by the spouse of Ms. Wong Choi Kam, a director of the Company.

The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

19. BANK BORROWINGS, SECURED

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts	2,663	–
Short term bank loans	110,864	142,773
Trust receipt loans	10,107	16,160
	<u>123,634</u>	<u>158,933</u>

The bank overdrafts, short term bank loans and trust receipt loans are secured by fixed deposits amounting to HK\$11,270,000 (2000: HK\$41,877,000), certain properties held by the Group (note 12), the corporate guarantees of certain related companies and the Company.

20. ACCOUNTS PAYABLE

The aged analysis of accounts payable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 3 months	60,167	34,403
4 – 6 months	9,543	11,312
7 – 12 months	960	4,356
Over 1 year	2,106	1,348
	<u>72,776</u>	<u>51,419</u>

21. FINANCE LEASE PAYABLE

The Group leases a motor vehicle under a finance lease. At 30 September 2001, future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable:				
Within one year	118	118	88	80
In the second year	118	118	103	88
In the third to fifth years, inclusive	98	216	94	197
Total minimum finance lease payments	334	452	285	365
Less: Future finance charges	49	87		
Total net finance lease payable	285	365		
Less: Portion classified as current liability	88	80		
Non-current portion of finance lease payable	197	285		

22. CONVERTIBLE BONDS

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	75,175	–
Issued during the year	–	77,500
Converted during the year (<i>note 24(b)</i>)	(4,650)	(2,325)
Redeemed during the year	<u>(10,850)</u>	<u>–</u>
At end of year	<u>59,675</u>	<u>75,175</u>

US\$10,000,000 3% convertible bonds due in 2003 (the "CB 2003") were issued on 25 May 2000 by the Company. The CB 2003 were issued at 100% of their principal amount and bear interest at a rate of 3% per annum payable semi-annually in arrears on 30 June and 30 December of each year. The CB 2003 carry a right to be converted into fully paid ordinary shares with a par value of HK\$0.10 each of the Company (the "Shares") at the option of the bondholders at a conversion price of either (i) HK\$2.1087 per Share subject to adjustment, being 125% of the average closing prices per Share for the 10 dealing days immediately prior to the closing date of the CB 2003, or (ii) 95% of the average of any three closing prices per Share during the 30 dealing days immediately prior to the date of conversion as selected by the relevant bondholders (the "Variable Conversion Price"), subject to a minimum conversion price of HK\$0.10 per Share.

Unless previously redeemed, purchased and cancelled, or converted, the CB 2003 would be redeemed at their principal amount plus accrued interest on 25 May 2003. During the 60 calendar days after the conversion of all of the CB 2003, the Company also has an option to issue up to a further US\$10,000,000 in aggregate principal amount of 3% convertible bonds due in 2003 on substantially the same terms as the CB 2003.

Unless previously redeemed, purchased and cancelled, or converted, the Company has an option that if at any time during the conversion period the closing price per Share is less than or equal to HK\$1.00, the Company may redeem CB 2003 presented for conversion in cash at their early redemption price as defined in the subscription agreement of CB 2003 plus accrued interest.

During the year, 1,383,370, 5,078,306 and 3,649,029 Shares were allotted and issued at a subscription price of approximately HK\$0.5637 per Share, HK\$0.4608 per Share and HK\$0.4275 per Share, respectively, upon the conversion of the CB 2003 with an aggregate principal amount of US\$600,000 (equivalent to approximately HK\$4,650,000) by certain bondholders.

22. CONVERTIBLE BONDS *(continued)*

During the year, the Company redeemed the CB 2003 in an aggregate principal amount of US\$1,400,000 (equivalent to approximately HK\$10,850,000) presented for conversion.

As at 30 September 2001, the Company failed to meet a term of the subscription agreement of CB 2003 in respect of the Group's interest coverage ratio. As a result, the bondholders have an option to demand immediate repayment in full of CB 2003. Accordingly, outstanding convertible bonds of HK\$59,675,000 have been classified under current liabilities as at 30 September 2001.

Subsequent to the balance sheet date, the Company redeemed the CB 2003 in an aggregate principal amount of US\$3,700,000 (equivalent to approximately HK\$28,675,000) presented for conversion.

As at 30 September 2001, the CB 2003 had not been fully converted. Assuming full conversion of the CB 2003 into the Shares of the Company at the Variable Conversion Price based on the fair value of the Shares deemed to be converted at the balance sheet date, the Company would have issued 227,013,000 new Shares, representing approximately 18.3% of the existing issued Shares of the Company as enlarged by such new Shares at the balance sheet date.

23. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	281	–
Charge for the year <i>(note 9)</i>	59	281
	<u>340</u>	<u>281</u>
At end of year	<u>340</u>	<u>281</u>

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 leasehold land and buildings and certain fixed assets 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 30 September 2001 (2000: Nil).

24. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
1,012,079,340 (2000: 1,002,198,635) ordinary shares of HK\$0.10 each	<u>101,208</u>	<u>100,220</u>

During the year, the following movements in issued share capital were recorded:

- (a) During the year, the Company repurchased and cancelled 130,000 and 100,000 ordinary shares of HK\$0.10 each from the Hong Kong Stock Exchange at a consideration of HK\$36,500 and HK\$31,000, respectively. The premium of HK\$44,500 paid on the repurchase of these shares has been charged against the share premium account and an amount of HK\$23,000 was transferred from the retained profits to the capital redemption reserve (note 25).
- (b) During the year, 1,383,370, 5,078,306 and 3,649,029 ordinary shares of HK\$0.10 each of the Company were issued at a subscription price of approximately HK\$0.5637 per share, HK\$0.4608 per share and HK\$0.4275 per share, respectively, upon the conversion of the CB 2003 with a principal amount of US\$100,000, US\$300,000 and US\$200,000, respectively, by certain bondholders.

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

	Number of shares issued	Par value HK\$'000
At beginning of year	1,002,198,635	100,220
Repurchase of shares (a)	(230,000)	(23)
Conversion of convertible bonds (b)	<u>10,110,705</u>	<u>1,011</u>
At 30 September 2001	<u>1,012,079,340</u>	<u>101,208</u>

24. SHARE CAPITAL *(continued)***Share options**

Pursuant to the share option scheme adopted on 6 August 1999, the board of directors may, on or before 5 August 2009, 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 Hong Kong Stock Exchange 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 25 October 1999, 40,000,000 share options were granted to certain directors and employees of the Group to subscribe for a total of 40,000,000 ordinary shares of the Company at HK\$1.20 per share exercisable up to 24 October 2009. As at 30 September 2000 and 2001, the Company had 39,550,000 outstanding share options. The exercise in full of the outstanding share options at the balance sheet date would, under the present capital structure of the Company, result in the issue of 39,550,000 additional shares and cash proceeds to the Company of approximately HK\$47,460,000 before related expenses.

No share options were granted or exercised during the year.

25. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 1999	169,622	56,471	-	27,612	(6,049)	338,907	586,563
Arising on exercise of share options	495	-	-	-	-	-	495
Arising on conversion of convertible bonds	2,150	-	-	-	-	-	2,150
Net profit for the year	-	-	-	-	-	101,236	101,236
At 30 September 2000 and 1 October 2000	172,267	56,471	-	27,612	(6,049)	440,143	690,444
Arising on conversion of convertible bonds (note 24(b))	3,639	-	-	-	-	-	3,639
Arising on repurchase of shares (note 24(a))	(45)	-	23	-	-	(23)	(45)
Revaluation of fixed assets (note 12)	-	-	-	6,177	-	-	6,177
Net profit for the year	-	-	-	-	-	5,453	5,453
At 30 September 2001	<u>175,861</u>	<u>56,471</u>	<u>23</u>	<u>33,789</u>	<u>(6,049)</u>	<u>445,573</u>	<u>705,668</u>
Reserves retained by:							
Company and subsidiaries	175,861	56,471	23	33,789	(6,049)	450,983	711,078
Associate	-	-	-	-	-	(5,410)	(5,410)
At 30 September 2001	<u>175,861</u>	<u>56,471</u>	<u>23</u>	<u>33,789</u>	<u>(6,049)</u>	<u>445,573</u>	<u>705,668</u>

25. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 1999	169,622	118,377	–	279,615	567,614
Arising on exercise of share options	495	–	–	–	495
Arising on conversion of convertible bonds	2,150	–	–	–	2,150
Net loss for the year	–	–	–	(7,838)	(7,838)
At 30 September 2000 and 1 October 2000	172,267	118,377	–	271,777	562,421
Arising on conversion of convertible bonds (note 24(b))	3,639	–	–	–	3,639
Arising on repurchase of shares (note 24(a))	(45)	–	23	(23)	(45)
Net loss for the year	–	–	–	(9,249)	(9,249)
At 30 September 2001	<u>175,861</u>	<u>118,377</u>	<u>23</u>	<u>262,505</u>	<u>556,766</u>

The contributed surplus of the Group 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 contributed surplus of the Company at the date of acquisition represents the excess of the then combined net assets of the subsidiaries acquired over the aggregate of the nominal value of the Company's shares issued in exchange therefor.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	23,888	119,749
Depreciation	34,309	30,195
Interest income	(1,635)	(1,906)
Gain on disposal of fixed assets	(69)	(41)
Revaluation deficit on fixed assets	7,351	600
Decrease/(increase) in inventories	7,475	(47,618)
Decrease/(increase) in accounts receivable	33,759	(68,910)
Decrease/(increase) in prepayments, deposits and other receivables	4,579	(12,503)
Decrease in an amount due from a related company	580	3,591
Increase in accounts payable	21,357	14,589
Increase/(decrease) in accrued liabilities and other payables	(704)	5,384
Increase/(decrease) in trust receipt loans with maturity of over three months, secured	(5,444)	5,414
	125,446	48,544

(b) Analysis of changes in financing during the year

	Share capital and share premium account HK\$'000	Convertible bonds HK\$'000	Short term bank loans, secured HK\$'000	Obligations under finance lease HK\$'000
At 1 October 1999	269,622	-	103,857	114
Net cash inflow/(outflow) from financing	540	77,500	38,916	(129)
Inception of finance lease contract	-	-	-	380
Conversion of convertible bonds	2,325	(2,325)	-	-
	272,487	75,175	142,773	365
At 30 September 2000 and 1 October 2000	272,487	75,175	142,773	365
Net cash outflow from financing	(68)	(10,850)	(31,909)	(80)
Conversion of convertible bonds	4,650	(4,650)	-	-
	277,069	59,675	110,864	285

27. 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) Capital commitments contracted for in respect of:		
Acquisition of fixed assets and construction works	71,813	29,470
Capital contribution to an associate established in the PRC	–	7,750
Capital contribution to a long term investment in a Russian company	–	9,300
Capital contribution to a wholly-owned subsidiary established in the PRC	12,737	–
	<u>84,550</u>	<u>46,520</u>
	Group	
	2001	2000
	HK\$'000	HK\$'000
(b) Aggregate commitments payable in the following years under non-cancellable operating leases in respect of the land and buildings:		
Within one year	664	497
In the second to fifth years, inclusive	44	371
	<u>708</u>	<u>868</u>

The Company did not have any significant commitments at the balance sheet date.

28. RELATED PARTY TRANSACTIONS

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

- (a) The Group sold finished goods amounting to HK\$6,592,000 (2000: HK\$15,440,000) to certain companies of which the spouse of Ms. Wong Choi Kam (a director of the Company), was also a director and controlling shareholder.

The sales to these related companies are made according to the published prices and conditions offered to the major customers of the Group.

- (b) The Group paid shipping terminal service fee amounting to HK\$238,000 (2000: Nil) to a company of which the late Mr. Wong Choi Fung (a former director of the Company), Ms. Wong Choi Kam (a director of the Company) and Mr. Wong Kim Seong (a non-executive director of the Company), were also beneficial shareholders.

The shipping terminal service fee paid to the related company was incurred in accordance with the same rate charged to other customers of the related company.

- (c) The Group's short term bank loans amounting to HK\$94,727,000 (2000: HK\$120,623,000) were secured by the corporate guarantees of certain companies of which the late Mr. Wong Choi Fung, Ms. Wong Choi Kam and Mr. Wong Kim Seong, were also beneficial shareholders.

Related party transactions in respect of (a) and (b) above also constituted connected transactions required to be disclosed in the financial statements, as defined in the Listing Rules.

29. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 14 during the current year, the supporting notes for finance lease payable and operating lease commitments have been revised to comply with the new requirements. Accordingly, the comparative amounts of the corresponding supporting notes have been revised to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 28 January 2002.