• Consolidated Income Statement

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Turnover	4	**275,854**	220,424
Cost of sales		**(210,164)**	(170,142)
		65,690	50,282
Other net income	5	**1,821**	3,365
Distribution costs		**(20,813)**	(18,432)
Administrative expenses		**(10,943)**	(9,619)
Profit from operations		**35,755**	25,596
Finance costs	6	**(1,270)**	(1,363)
Profit from ordinary activities before taxation	6	**34,485**	24,233
Taxation	9(a)	**(2,782)**	(2,443)
Profit attributable to shareholders		**31,703**	21,790
Earnings per share			
Basic	12	**10.6 cents**	7.3 cents

No separate statement of recognised gains and losses has been prepared as the net profit for the relevant years would be the only component of this statement.

The notes on pages 29 to 54 form part of these financial statements.

•Consolidated Balance Sheet

At 31 December 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Non-current assets			
Fixed assets	13	47,826	48,194
Construction in progress	14	1,730	—
		49,556	48,194
Current assets			
Inventories	16	38,859	50,375
Trade and other receivables	17	110,007	69,581
Cash and cash equivalents		7,155	8,758
		156,021	128,714
Current liabilities			
Secured bank loans	18	10,170	14,703
Trade and other payables	19	63,033	63,214
Amount due to shareholders	20	—	1,044
Tax payable	9(b)	10,100	7,376
		83,303	86,337
Net current assets		72,718	42,377
NET ASSETS		122,274	90,571
CAPITAL AND RESERVES			
Share capital	21	200	3,389
Reserves	22	122,074	87,182
		122,274	90,571

Approved and authorised for issue by the board of directors on 15 April 2002

Wang Chia Chin
Director

Wang Chia Chun
Director

The notes on pages 29 to 54 form part of these financial statements.

• Balance Sheet

At 31 December 2001

(Expressed in Hong Kong dollars)

	Note	*$'000*	*$'000*
Non-current assets			
Investments in subsidiaries	15		122,000
Current assets			
Trade and other receivables	17	936	
Current liabilities			
Amount due to subsidiaries	19	945	
Net current liabilities			(9)
NET ASSETS			121,991
CAPITAL AND RESERVES			
Share capital	21		200
Reserves	22		121,791
			121,991

Approved and authorised for issue by the board of directors on 15 April 2002

Wang Chia Chin
Director

Wang Chia Chun
Director

The notes on pages 29 to 54 form part of these financial statements.

• Consolidated Cash Flow Statement

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Net cash inflow from operating activities	26	**15,417**	7,627
Returns on investments and servicing of finance			
Interest received		**116**	478
Interest paid		**(1,270)**	(1,363)
Net cash outflow from returns on investments and servicing of finance		**(1,154)**	(885)
Taxation			
Payment of income tax		**(58)**	(70)
Net cash outflow from taxation		**(58)**	(70)
Investing activities			
Payment for purchase of fixed assets and construction in progress		**(11,420)**	(6,502)
Proceeds from sales of fixed assets		**145**	269
Net cash outflow from investing activities		**(11,275)**	(6,233)
Net cash inflow before financing		**2,930**	439
Financing			
New bank loans		**12,351**	21,767
Repayments of bank loans		**(16,884)**	(24,816)
Net cash outflow from financing		**(4,533)**	(3,049)
Decrease in cash and cash equivalents		**(1,603)**	(2,610)
Cash and cash equivalents at 1 January		**8,758**	11,368
Cash and cash equivalents at 31 December		**7,155**	8,758

The notes on pages 29 to 54 form part of these financial statements.

•Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. REORGANISATION

Sky Hawk Computer Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 27 July 2001 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The company became the holding company of the Group on 28 December 2001 through a reorganisation (the "reorganisation").

2. BASIS OF PRESENTATION

The Company and its subsidiaries (the "Group") resulting from the reorganisation have been regarded as a continuing group. Accordingly the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company was the holding company of the Group for both years presented, rather than from 28 December 2001. In the circumstances, the results of the Group for the years ended 31 December 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 December 2000 is a combination of the balance sheets of the Company and its subsidiaries as at 31 December 2000. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and the state of affairs of the Group as a whole.

The Company was incorporated on 27 July 2001, no comparative figures are presented in respect of the Company's balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Statements of Standards Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation (see note 3(e)) and impairment losses (note 3(h)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(e) Amortisation and depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

— freehold land is not depreciated and leasehold land is depreciated on a straight-line basis over the remaining terms of the leases;

— buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 30 years from the date of acquisition, and the unexpired terms of the leases;

— leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 5 years and the unexpired terms of the leases; and

— other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant, equipment and machinery	5 to 10 years
Motor vehicles	5 years

(f) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

(g) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all of the activities necessary to prepare the assets for their intended use are complete. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investments in subsidiaries (except for those accounted for at fair value under note 3(c)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Impairment of assets *(Cont'd)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provision are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of branches and subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(n) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(o) Retirement cost

Defined contributions to retirement benefit schemes are recognised as an expense in the income statement as and when incurred.

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(r) Segment reporting *(Cont'd)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

4. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15.

Turnover represents aggregate of the invoiced value of goods sold, after deducting goods returned, trade discounts and sales tax.

An analysis of the Group's turnover and contribution to its profit from operations by products category is as follows:

	Group's turnover		Contribution to profit from operations	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Personal computer peripherals	**182,665**	191,993	**33,040**	39,992
Networking products	**81,457**	20,419	**28,419**	8,282
Computer accessories	**11,732**	8,012	**4,231**	2,008
	275,854	220,424	**65,690**	50,282
Operating expenses			**(29,935)**	(24,686)
			35,755	25,596

Pursuant to the relevant of the People's Republic of China ("PRC") tax regulations, the Group's subsidiary in the PRC is predominately engaged in export sales and is exempted from value added tax which is levied at 17% of the sales less any input value added tax incurred by the subsidiary.

5. OTHER NET INCOME

	The Group	
	2001	2000
	$'000	*$'000*
Interest income	**116**	478
Net gain on disposal of fixed assets	**71**	—
Net exchange gain	**115**	430
Gains on disposal of scrap materials	**1,519**	2,457
	1,821	3,365

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(i) Finance costs

	The Group	
	2001	2000
	$'000	*$'000*
Interest on bank loans wholly repayable within five years	**1,270**	1,363
	1,270	1,363

(ii) Other items

	The Group	
	2001	2000
	$'000	*$'000*
Auditors' remuneration	**1,044**	129
Cost of inventories*	**210,164**	170,142
Depreciation*	**9,985**	8,585
Impairment loss on property	**—**	680
Operating lease charges in respect of properties*	**5,236**	5,291
Provision for doubtful debts	**5,902**	2,781
Provision for inventory obsolescence	**401**	792
Research and development costs	**1,407**	—
Staff costs*		
— wages, salaries and benefits	**22,174**	20,814
— contributions to retirement scheme	**596**	552
Average number of employees during the year	**1,708**	1,633

* Cost of inventories includes $28,792,000 (2000: $26,594,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. DIRECTORS' EMOLUMENTS

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 *$'000*	2000 *$'000*
Fees	—	—
Salaries and other emoluments	1,223	1,339
Discretionary bonuses	—	—
Retirement scheme contributions	—	—
	1,223	1,339

The above emoluments were paid to executive directors and no (2000: $Nil) emoluments were paid to independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
$Nil–$1,000,000	5	5
	5	5

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2000: three) are directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other two (2000: two) individuals are as follows:

	2001 *$'000*	2000 *$'000*
Salaries and other emoluments	600	714
Discretionary bonuses	—	—
Retirement scheme contributions	—	—
	600	714

The emoluments of the two (2000: two) individuals with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
$Nil–$1,000,000	2	2
	2	2

There was no inducement, compensation or waiver of any emoluments by senior management during the relevant periods.

9. TAXATION

(a) Taxation in the consolidated income statement represents:

	2001 $'000	2000 $'000
Provision for tax for the year:		
Taiwan income tax	2,292	1,006
PRC income tax	992	1,432
Hong Kong profit tax	—	5
	3,284	2,443
Over-provision of PRC income tax in respect of prior year	(502)	—
	2,782	2,443

No provision has been made for Hong Kong profits tax as the Group did not have profits assessable to Hong Kong profits tax for the years ended 31 December 2001. The provision for Hong Kong profits tax was calculated at 16% of the estimated assessable profits for 2000.

As the Company's subsidiary in the PRC was granted certain tax relief during the year ended 31 December 2001, under which it is entitled to a reduced tax rate of 10% and such relief would be effective retrospectively from 1 January 2000. The over-provision in respect of the prior year was written back.

Provisions for Taiwan income tax have been calculated at the applicable tax rate of 25% (2000: 25%) on the estimated assessable profits arising in Taiwan for the relevant periods.

(b) Taxation in the consolidated balance sheet represents:

	2001 $'000	2000 $'000
Provision for income tax for the year	3,284	2,443
Provisional income tax paid	(16)	(70)
	3,268	2,373
Balance of income tax provision relating to prior years	6,832	5,003
	10,100	7,376

9. TAXATION *(Cont'd)*

(c) Deferred taxation

No provision for deferred taxation has been made as the effect of all timing differences is immaterial at the respective balance sheet dates.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of $9,000 (2000: $Nil) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2001 *$'000*	2000 *$'000*
Final dividend proposed after the balance sheet date of 0.7 cents per share (2000: Nil cent per share)	2,905	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of $31,703,000 (2000: $21,790,000) and on the assumption that 300,000,000 shares of the Company are in issue and issuable, comprising 2,000,000 shares in issue as at 31 December 2001 and 298,000,000 shares be issued on 12 January 2002 pursuant to the capitalisation issue, as described in the section headed "Resolutions of all shareholders of the Company passed on 28 December 2001" in the Appendix V to the Prospectus as if the shares of the Company were outstanding throughout the period from 1 January 2001 to 31 December 2001.

There were no potential dilutive shares in issue during the year ended 31 December 2001.

13. FIXED ASSETS

The Group

	Land and buildings $'000	Leasehold improvements $'000	Plant, equipment and machinery $'000	Motor vehicles $'000	Total $'000
Cost					
As at 1 January 2001	7,483	4,949	54,605	1,028	68,065
Additions	—	1,105	8,524	62	9,691
Disposals	—	—	(80)	—	(80)
As at 31 December 2001	7,483	6,054	63,049	1,090	77,676
Accumulated depreciation					
As at 1 January 2001	1,199	1,872	16,343	457	19,871
Charge for the year	273	740	8,643	329	9,985
Written back on disposal	—	—	(6)	—	(6)
As at 31 December 2001	1,472	2,612	24,980	786	29,850
Net book value					
As at 31 December 2001	6,011	3,442	38,069	304	47,826
As at 31 December 2000	6,284	3,077	38,262	571	48,194

An analysis of the net book value of the Group's properties is set out below:

	2001 $'000	2000 $'000
In Hong Kong		
Medium-term leases	1,285	1,357
In Taiwan		
Freehold	4,726	4,927
	6,011	6,284

Medium-term leases represent leases with an unexpired period less than 50 years but not less than 10 years.

The property interests of the Group have been valued by Vigers HK Limited, an independent firm of professional valuers in Hong Kong, at approximately $6,157,000 as at 30 November 2001.

13. FIXED ASSETS *(Cont'd)*

Certain properties of the Group are pledged to secure mortgaged loans and other banking facilities granted to the Group as follows:

	2001 *$'000*	2000 *$'000*
Net book value of pledged properties	6,011	6,284

14. CONSTRUCTION IN PROGRESS

Construction in progress in consolidated balance sheet represented costs for casting of moulds which was not yet completed as at 31 December 2001.

15. INVESTMENT IN SUBSIDIARIES

	The Company 2001 *$'000*
Unlisted shares, at cost	122,000

(Expressed in Hong Kong dollars)

15. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

The following list contains the particulars of the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest % Direct	Indirect	Principal activities
Pablo Enterprises Ltd.	British Virgin Islands 16 April 1998	US$10,000	100	—	Investment holding
Sky Hawk Computer	Belgium 4 August 1992	EUR61,973.38	—	100	Investment holding
Sky Hawk Computer (Shenzhen) Company Limited*	PRC 16 June 1994	US$5,650,000	—	100	Manufacturing of computer peripherals
San Hawk Technic Co., Ltd.	Taiwan 5 March 1992	NT$10,000,000	—	100	Trading of computer peripherals
Eagle Lord Development Limited ("Eagle Lord")	Hong Kong 29 December 1992	$10,002 (10,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each)#	—	100	Property holding
Glory Trading Limited	Samoa 7 July 1995	US$10,000	—	100	Trading of computer peripherals
Newton Investments Limited	Samoa 7 July 1995	US$11,000	—	100	Trading of computer peripherals
Sky Hawk Computer Group Limited	British Virgin Islands 2 April 1998	US$1	—	100	Investment holding

* Wholly foreign owned enterprise established in the PRC.

\# In accordance with the Articles of Association of Eagle Lord, a shareholder of non-voting deferred share is not entitled to any dividend, any participation in the profits or assets of Eagle Lord and is also not entitled to vote at any general meeting.

16. INVENTORIES

	The Group	
	2001	2000
	$'000	*$'000*
Raw materials	**21,868**	31,719
Work in progress	**15,189**	10,685
Finished goods	**1,802**	7,971
	38,859	50,375

Included in the above are inventories stated at net realisable value as follows:

	2001	2000
	$'000	*$'000*
Inventories stated at net realisable value	**1,083**	1,092

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Trade receivables	**95,589**	64,110	**—**	—
Prepayments, deposits and other receivables	**14,418**	5,471	**936**	—
	110,007	69,581	**936**	—

All of the trade and other receivables are expected to be recovered within one year.

17. TRADE AND OTHER RECEIVABLES *(Cont'd)*

Included in trade and other receivables are trade debtors and bills receivables (net of provisions for bad and doubtful debts) with the following aging analysis:

	The Group	
	2001	2000
	$'000	*$'000*
Current	63,706	41,932
1 to 3 months overdue	27,015	19,860
More than 3 months overdue but less than 12 months overdue	4,868	2,318
	95,589	64,110

Credit terms granted by the Group to customers generally range from one to four months.

18. SECURED BANK LOANS

	The Group	
	2001	2000
	$'000	*$'000*
Secured bank borrowings		
Short term loans	1,000	1,591
Trust receipt loans	9,170	13,112
	10,170	14,703

All bank loans were repayable within one year.

As at 31 December 2001, the bank borrowings of the Group were secured as follows:

(i) The group's inventories released under trust receipt loans;

(ii) Mortgages over certain properties of the Group;

(iii) Mortgages over a property owned by Ms. Ko Su Mei, a shareholder of the Company; and

(iv) Personal guarantees issued by the controlling shareholders and certain directors.

The relevant principal bankers have agreed in principle that all the personal guarantees given by the controlling shareholders and certain directors and mortgage over a property provided by a shareholder to secure the Group's banking facilities will be released in 2002 and will be replaced by corporate guarantees of the Company.

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Trade payables	**49,634**	54,764	**—**	—
Accrued expenses and other payables	**13,399**	8,450	**—**	—
Amounts due to subsidiaries	**—**	—	**945**	—
	63,033	63,214	**945**	—

The credit terms obtained by the Group generally range from one to six months. Included in trade payables are balances with the following aging analysis:

	The Group	
	2001	2000
	$'000	*$'000*
Due within one month or on demand	**20,419**	11,909
Due after one month but within three months	**18,296**	21,261
Due after three months but within six months	**6,579**	19,624
Over six months but less than one year	**4,340**	1,970
	49,634	54,764

All of the above balances are expected to be settled within one year.

20. AMOUNT DUE TO SHAREHOLDERS

The balance was unsecured, interest free and had no fixed terms of repayment.

21. SHARE CAPITAL

		2001		2000	
		No. of shares	Amount	No. of shares	Amount
	Note	*million*	*$'000*	*million*	*$'000*
Authorised:					
Ordinary shares of $0.10 each		4,000	400,000	—	—
Ordinary shares of NTD1 each		—	—	10	3,389
Issued and fully paid:					
At 1 January		10	3,389	10	3,389
Issuance of shares for the acquisition of subsidiaries	(b)	2	200	—	—
Capital elimination on combination		(10)	(3,389)	—	—
		2	200	10	3,389

(a) The 2000 comparative figures represent the combined issued share capitals of the companies comprising the Group as at 31 December 2000 on the basis set out in notes 1 and 2.

(b) The Company acquired the entire equity interest of the subsidiaries and became the holding company on 28 December 2001 pursuant to the reorganisation. Share capital as at 31 December 2001 represents the Company's issued capital of $200,000 divided into 2,000,000 shares of $0.10 each.

(c) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 July 2001 with an authorised share capital of $100,000 divided into 1,000,000 shares of $0.10 each, which were on that date issued and credited as fully paid.

(d) Pursuant to resolutions in writing of all shareholders of the Company passed on 28 December 2001, the authorised share capital of the Company was increased to $200,000 by the creation of a further 1,000,000 shares of $0.10 each, which were on that date issued and credited as fully paid.

(e) On 28 December 2001, written resolutions of all shareholders of the Company were passed pursuant to which, inter alias:

(i) the authorised share capital of the Company was further increased to $400 million by the creation of a further 3,998 million shares of $0.10 each; and

21. SHARE CAPITAL *(Cont'd)*

(ii) conditional on the share premium account of the Company being credited as a result of the new issue of shares, details of which were set out in note 21(e), $29,800,000 of such amount was directed to be capitalised and applied in paying up in full 298 million shares of $0.10 each for allotment and issue to holders of shares on the register of shareholders at the close of business on 28 December 2001 (or as they may direct) in proportion as nearly as may be to their then existing holdings.

(f) On 17 January 2002, a further 100 million shares (including 85 million to independent investors by way of a placement) of $0.10 each were issued and offered for subscription at a price of $0.50 per share upon the listing of the Company's shares on the Stock Exchange. The Company raised approximately $38,000,000 (including interest income) net of related expenses from the issue.

(g) On 6 February 2002, the underwriters of the public offering exercised the over-allotment option for the issuance of 15,000,000 shares of $0.10 each at a price of $0.50 per share in accordance with the placement agreement entered into by the underwriters and the Company on 7 January 2002. The net proceeds from the issuance of 15,000,000 shares amounted to $7,237,000 net of related expenses from the issue.

(h) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

(i) Share option scheme

Pursuant to a written resolution passed on 28 December 2001, the Company has conditionally adopted a share option scheme whereby the directors of the Company are authorised, at their discretion, to invite eligible participants under the scheme, including employees or proposed employees of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest (including directors of any company in the Group), suppliers or customers to the Group or the Invested Entity and any person or any other group determined by the directors as having contributed or may contribute by way of joint venture, business alliances or other business arrangements to the development and growth of the Group, to take up options to subscribe for shares of the Company. The subscription price for shares under the share option scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of $1 is payable on acceptance of the grant of an option. An option may be accepted within 21 days from the date of the offer of grant of the option and may be exercised in accordance with the terms of the share option scheme at any time during a period to be determined and notified by the directors to each grantee, which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

21. SHARE CAPITAL *(Cont'd)*

The maximum number of shares in respect of which options may be granted (including those outstanding, cancelled, lapsed or exercised) under the share option scheme may not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the scheme.

During the year, no option was granted or agreed to be granted under the share option scheme.

22. RESERVES

The Group

	Statutory reserve fund *$'000*	Share premium *$'000*	Retained profits *$'000*	Total *$'000*
At 1 January 2000	73	—	65,319	65,392
Profit for the year	—	—	21,790	21,790
Transfer to statutory reserve fund	24	—	(24)	—
Balance at 31 December 2000	97	—	87,085	87,182
At 1 January 2001	97	—	87,085	87,182
Profit for the year	—	—	31,703	31,703
Shares issued upon group restructuring	—	3,189	—	3,189
Transfer to statutory reserve fund	131	—	(131)	—
Balance at 31 December 2001	228	3,189	118,657	122,074

Note:

Statutory reserve fund

In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the Company's subsidiary in the PRC is required to transfer at least 10% of its annual net profit, as determined under PRC accounting rules and regulations, to the statutory reserve fund until the reserve balance reaches 50% of the registered capital. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

22. RESERVES *(Cont'd)*

The Company

	Share premium $'000	Contributed surplus $'000 (Note a)	Accumulated losses $'000	Total $'000
Loss for the period	—	—	(9)	(9)
Shares issued upon group restructuring	3,189	118,611	—	121,800
Balance at 31 December 2001	3,189	118,611	(9)	121,791

Notes:

(a) The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account.

(b) Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account and share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

23. COMMITMENTS

Operating lease commitments

As at 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group 2001 $'000	2000 $'000
Within 1 year	5,333	4,582
After 1 year but within 5 years	23,765	875
After 5 years	2,724	—
	31,822	5,457

23. COMMITMENTS *(Cont'd)*

The group leases a number of factory premises and staff quarters under operating leases. The leases run for a period of six years since 1 June 2001, with an option to renew the leases when all terms are renegotiated. Operating lease charges totalled $5,236,000, (2000: $5,291,000) were recognised as an expense in the consolidated income statement for the year ended 31 December 2001.

24. RELATED PARTY TRANSACTIONS

Details of significant non-recurring related party transactions during the year are as follows:

(i) During the year, a residential property owned by Ms. Ko Su Mei, who is a shareholder, was provided as part of the security pledged against the banking facilities granted to the Group. The controlling shareholders also provide personal guarantees to secure these banking facilities. As at 31 December 2001 and 2000, such banking facilities together with the utilised amounts were as follows:

		The Group	
	(in thousand)	2001	2000
Facilities amounts	NT$	95,000	95,000
	US$	3,000	3,000
	HK$	1,000	1,000
Utilised balance	HK$	10,170	14,703

(ii) In 2000, the then shareholders made unsecured interest-free advances to the Group which was fully settled during the year ended 31 December 2001.

	2001	2000
	$'000	*$'000*
Amount due to shareholders	—	1,044

The directors of the Company are of the opinion that the above non-recurring transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the Group.

25. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the year, the Group has been operating in a single business segment, i.e. the manufacturing and sale of computer peripherals.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The Group's business is managed on a worldwide basis, but participates in four major principal economic environments; Europe, Asia Pacific, North America and South Africa. In Europe, the customers are mainly from Spain, Germany, France, Austria, and Italy. In Asia Pacific, the customers are mainly from Japan, Korea, and Australia. And in North America, the customers are mainly from the United States of America.

All segment assets and capital expenditures are in the PRC (including Hong Kong and Taiwan).

Revenue from external customers

	2001 *$'000*	2000 *$'000*
Europe	124,684	103,956
Asia Pacific	69,763	48,772
North America	67,185	55,573
South Africa	14,222	12,123
	275,854	220,424

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

26. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	The Group	
	2001	2000
	$'000	*$'000*
Profit from operations	35,755	25,596
Interest income	(116)	(478)
Depreciation and impairment loss on fixed assets	9,985	9,265
Provision for doubtful debts	5,902	2,781
Provision for inventories obsolescence	401	792
Gain on disposal of fixed assets	(71)	—
Decrease/(increase) in inventories	11,115	(1,527)
Increase in trade and other receivables	(46,329)	(3,696)
Decrease in amount due to shareholders	(1,044)	(6,747)
Decrease in trade and other payables	(181)	(18,359)
Net cash inflow from operating activities	15,417	7,627

(b) Analysis of the balances of cash and cash equivalents

	The Group	
	2001	2000
	$'000	*$'000*
Cash at bank and in hand	7,155	8,758

(c) Major non-cash transactions

As disclosed in note 21(b), 2,000,000 shares of $0.10 each were issued by the Company during the year in exchange for the entire issued share capital of a subsidiary, the consideration of which amounted to $122,000,000 representing the net asset value of the subsidiary on the date of the exchange.

27. POST BALANCE SHEET EVENT

The Company's shares were listed on the Stock Exchange on 17 January 2001. Details of the changes in share capital subsequent to the year end are set out in note 21.