

Notes to Financial Statements

30 September 2002

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda (as amended) as an exempted company, on 18 August 1998.

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 are 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 Group's principal activities during the year.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time in the preparation of the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

Notes to Financial Statements

30 September 2002

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which has had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The adoption of this new SSAP has had no effect on amounts reported in prior year's financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year 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 the investment property and certain fixed assets, as further explained below.

Notes to Financial Statements

30 September 2002

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

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 30 September 2002. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Notes to Financial Statements

30 September 2002

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

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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.

Changes in the values of fixed assets, other than investment properties, 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 profits as a movement in reserves.

Notes to Financial Statements

30 September 2002

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

Fixed assets and depreciation *(continued)*

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 the 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%

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.

Construction in progress represents buildings, structures and plant and machinery under construction or installation, and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the 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.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Notes to Financial Statements

30 September 2002

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

Investment properties *(continued)*

On 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.

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 stated at cost less any impairment losses and 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.

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. When the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. When the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

30 September 2002

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

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 impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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 any estimated costs 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 period until the earliest date at which the bonds are able to 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.

Interest on the convertible bonds and the premium paid on early redemption of the convertible bonds, as explained in note 22, are recognised as expenses in the period in which they are incurred.

Notes to Financial Statements

30 September 2002

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

Deferred tax

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

Revenue recognition

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries operating in the PRC are members of the central pension scheme operated by the local municipal government.

Borrowing costs

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

Notes to Financial Statements

30 September 2002

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. Such dividends from subsidiaries are now recognised as income in the Company's profit and loss account in the period in which they are declared and approved.

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 into 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 included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks which were repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

Notes to Financial Statements

30 September 2002

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the electronic components and parts segment consists of the manufacture and sale of electronic components and parts;
- (b) the consumer electronic products segment consists of the manufacture and sale of consumer electronic products; and
- (c) the integrated circuits segment consists of the trading of integrated circuits.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

30 September 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

Group	Electronic components and parts		Consumer electronic products		Integrated circuits		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	154,582	232,274	473,626	375,700	65,052	53,648	693,260	661,622
Other revenue	750	2,121	3,113	2,390	204	100	4,067	4,611
Total	<u>155,332</u>	<u>234,395</u>	<u>476,739</u>	<u>378,090</u>	<u>65,256</u>	<u>53,748</u>	<u>697,327</u>	<u>666,233</u>
Segment results	<u>11,193</u>	<u>8,837</u>	<u>42,784</u>	<u>16,360</u>	<u>1,039</u>	<u>1,022</u>	<u>55,016</u>	<u>26,219</u>
Interest and unallocated gains							392	819
Unallocated expenses							<u>(1,361)</u>	<u>(3,150)</u>
Profit from operating activities							54,047	23,888
Finance costs							<u>(17,326)</u>	<u>(12,808)</u>
Share of loss of an associate							<u>(2,932)</u>	<u>(3,036)</u>
Profit before tax							33,789	8,044
Tax							<u>(3,570)</u>	<u>(2,591)</u>
Net profit from ordinary activities attributable to shareholders							<u>30,219</u>	<u>5,453</u>

Notes to Financial Statements

30 September 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Electronic components and parts		Consumer electronic products		Integrated circuits		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	391,121	511,780	439,530	330,903	63,542	86,039	894,193	928,722
Interest in an associate							11,882	14,814
Unallocated assets							207,077	154,283
Bank overdrafts included in segment assets							-	2,663
Total assets							1,113,152	1,100,482
Segment liabilities	27,729	36,910	48,569	39,150	3,516	14,997	79,814	91,057
Unallocated liabilities							172,324	199,886
Bank overdrafts included in segment assets							-	2,663
Total liabilities							252,138	293,606
Other segment information:								
Capital expenditure	86,024	12,836	18,719	17,580	-	-	104,743	30,416
Unallocated amounts							877	2,033
							105,620	32,449
Depreciation	17,604	15,005	17,612	18,052	-	-	35,216	33,057
Unallocated amounts							1,196	1,252
							36,412	34,309
Provision for inventories	30,723	19,262	4,232	1,600	-	-	34,955	20,862
Provision/(write-back of provision) for doubtful debts	(3,047)	4,004	(5,756)	6,512	(1,860)	2,124	(10,663)	12,640

Notes to Financial Statements

30 September 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Electronic components and parts		Consumer electronic products		Integrated circuits		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information (continued):								
Deficit/(surplus) on revaluation of fixed assets, net	(222)	2,489	(340)	1,815	-	-	(562)	4,304
Unallocated amounts							(2,308)	3,047
							<u>(2,870)</u>	<u>7,351</u>
Deficit on revaluation of an investment property							<u>172</u>	<u>-</u>
Surplus on revaluation recognised directly in equity	14,653	3,471	7,365	2,533	-	-	22,018	6,004
Unallocated amounts							647	173
	<u>14,653</u>	<u>3,471</u>	<u>7,365</u>	<u>2,533</u>	<u>-</u>	<u>-</u>	<u>22,665</u>	<u>6,177</u>

Notes to Financial Statements

30 September 2002

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, results and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>182,355</u>	<u>202,830</u>	<u>449,779</u>	<u>429,339</u>	<u>61,126</u>	<u>29,453</u>	<u>693,260</u>	<u>661,622</u>
Segment results	<u>(564)</u>	<u>1,061</u>	<u>55,510</u>	<u>24,981</u>	<u>70</u>	<u>177</u>	<u>55,016</u>	<u>26,219</u>
Other segment information:								
Segment assets	<u>144,285</u>	<u>99,862</u>	<u>945,807</u>	<u>977,510</u>	<u>23,060</u>	<u>20,447</u>	<u>1,113,152</u>	<u>1,097,819</u>
Bank overdrafts included in segment assets	<u>-</u>	<u>2,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,663</u>
	<u>144,285</u>	<u>102,525</u>	<u>945,807</u>	<u>977,510</u>	<u>23,060</u>	<u>20,447</u>	<u>1,113,152</u>	<u>1,100,482</u>
Capital expenditure	<u>191</u>	<u>296</u>	<u>105,429</u>	<u>32,153</u>	<u>-</u>	<u>-</u>	<u>105,620</u>	<u>32,449</u>

5. TURNOVER

Turnover represents the invoiced value of goods sold, net of trade discounts and returns.

Notes to Financial Statements

30 September 2002

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	564,094	551,504
Depreciation	36,412	34,309
Research and development costs written off	178	1,894
Minimum lease payments under operating leases in respect of land and buildings	680	736
Auditors' remuneration	950	950
Staff costs (excluding directors' remuneration - note 8 (a)):		
Salaries and allowances	106,637	115,937
Pension contributions	4,541	1,789
	111,178	117,726
Provision/(write-back of provision) for doubtful debts*	(10,663)	12,640
Provision for inventories**	34,955	20,862
Revaluation deficit/(surplus) on fixed assets, net*	(2,870)	7,351
Revaluation deficit on an investment property	172	-
Exchange gains, net	(838)	(2,297)
Net rental income	(378)	(89)
Gain on disposal of fixed assets	-	(69)
Interest income	(384)	(1,635)

The cost of inventories sold includes approximately HK\$126,117,000 (2001: HK\$133,651,000) 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.

* Included in "Other operating income/(expenses), net" on the face of the consolidated profit and loss account.

** Included in "Cost of sales" on the face of the consolidated profit and loss account.

Notes to Financial Statements

30 September 2002

7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	7,408	9,710
Interest on convertible bonds	331	2,030
Premium on redemption of convertible bonds	9,561	1,030
Interest on a finance lease	26	38
	<u>17,326</u>	<u>12,808</u>

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

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

(a) Directors' remuneration

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	444	690
Salaries, allowances and benefits in kind	7,814	6,414
Pension contributions	60	42
	<u>8,318</u>	<u>7,146</u>

The fees include HK\$444,000 (2001: HK\$690,000) payable to the non-executive directors. There were no other emoluments payable to the non-executive directors during the year (2001: Nil).

Notes to Financial Statements

30 September 2002

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)***(a) Directors' remuneration** *(continued)*

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	8	8
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	1	3
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>12</u>	<u>11</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

(b) Five highest paid employees

The five highest paid employees during the year included five (2001: five) directors, one of whom resigned as a director (2001: one of whom was appointed) during the year. Details of the remuneration of this individual after her resignation as director (2001: prior to her appointment as director) are as follows:

	2002	Group	2001
	HK\$'000		HK\$'000
Salary, allowances and benefits in kind	70		889
Pension contributions	4		8
	<u>74</u>		<u>897</u>

Notes to Financial Statements

30 September 2002

9. TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
Provision for the year:		
Hong Kong	1,381	1,500
Elsewhere	7,092	1,000
Prior years' under/(over) provisions:		
Hong Kong	(554)	(441)
Elsewhere	(4,009)	473
Deferred tax (<i>note 24</i>)	(340)	59
	<hr/>	<hr/>
Tax charge for the year	<u>3,570</u>	<u>2,591</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Provisions for tax on 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.

Notes to Financial Statements

30 September 2002

9. TAX (continued)

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 a 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 was exempt for a period of two years from 1 October 1999 and is entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years, from 1 October 2001 to 30 September 2004.

Pursuant to a further tax concession granted in prior years, the income tax rate applicable to Fujian Xinwei for the year ended 30 September 2002 is 15% (2001: 15%). As a result, a provision for income tax has been made at the rate of 7.5%, which is determined after the 50% relief for the assessable profit attributable to Fujian Xinwei, for the period from 1 October 2001 to 31 December 2001 in respect of the third phase of the capital investment, and for the year ended 30 September 2002 in respect of the fourth phase of the capital investment. A tax rate of 15% has been used for the year ended 30 September 2002 in respect of the first and second phases of the capital investment and for the period from 1 January 2002 to 30 September 2002 in respect of the third phase of the capital investment because the 50% relief for the third phase expired on 31 December 2001.

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 2002.

Notes to Financial Statements

30 September 2002

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 September 2002 dealt with in the financial statements of the Company was HK\$19,628,000 (2001: HK\$9,249,000).

11. DIVIDEND

	2002 HK\$'000	2001 HK\$'000
Proposed final – 1 cent (2001: Nil) per ordinary share	<u>10,160</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. The effect of this change in accounting policy as at 30 September 2002, is that the current year's proposed final dividend of HK\$10,160,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,219,000 (2001: HK\$5,453,000) and the weighted average of 1,014,635,986 (2001: 1,007,340,008) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 30 September 2002 and 2001 have not been disclosed, as any potential ordinary shares of the Group outstanding during these years in respect of the deemed exercise of all share options and the deemed conversion of all convertible bonds had anti-dilutive effects on the basic earnings per share for these years.

Notes to Financial Statements

30 September 2002

13. 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	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	-	174,617	22,986	223,451	18,131	11,838	880	26,500	478,403
Additions	-	182	14,297	78,630	120	2,198	52	10,141	105,620
Transfer	-	27,306	9,015	-	-	-	-	(36,321)	-
Reclassification	1,862	(1,900)	-	-	-	-	-	-	(38)
Revaluation	(172)	1,761	-	25,805	-	2,053	-	-	29,447
At 30 September 2002	1,690	201,966	46,298	327,886	18,251	16,089	932	320	613,432
Accumulated depreciation:									
At beginning of year	-	-	4,270	82,285	11,335	7,213	605	-	105,708
Provided during the year	-	7,845	2,519	22,879	1,818	1,257	94	-	36,412
Reclassification	-	(38)	-	-	-	-	-	-	(38)
Revaluation	-	(7,807)	-	10,516	-	1,375	-	-	4,084
At 30 September 2002	-	-	6,789	115,680	13,153	9,845	699	-	146,166
Net book value:									
At 30 September 2002	1,690	201,966	39,509	212,206	5,098	6,244	233	320	467,266
At 30 September 2001	-	174,617	18,716	141,166	6,796	4,625	275	26,500	372,695
An analysis of cost or valuation:									
At cost	-	-	46,298	-	18,251	-	932	320	65,801
At 2002 valuation:									
Open market value	1,690	201,966	-	-	-	-	-	-	203,656
Depreciated replacement cost	-	-	-	327,886	-	16,089	-	-	343,975
	1,690	201,966	46,298	327,886	18,251	16,089	932	320	613,432

Notes to Financial Statements

30 September 2002

13. FIXED ASSETS (continued)

The Group's leasehold land and buildings located in Hong Kong were revalued at 30 September 2002 by Chesterton Petty Limited, an independent firm of professional valuers, on an open market value, existing use basis, at HK\$7,800,000. The Group's leasehold land and buildings located elsewhere in the PRC were revalued at 30 September 2002 by Chesterton Petty Limited on a depreciated replacement cost basis, at HK\$194,166,000. Net revaluation surpluses of HK\$357,000 and HK\$9,211,000 resulting from the revaluations have been credited to the profit and loss account and the revaluation reserve, respectively.

The Group's plant, machinery and office equipment, and motor vehicles were revalued at 30 September 2002 by Chesterton Petty Limited, on a depreciated replacement cost basis. Revaluation surpluses of HK\$2,513,000 and HK\$13,454,000 resulting from the revaluations have been credited to the profit and loss account and the 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\$170,627,000 (2001: HK\$150,593,000), HK\$199,430,000 (2001: HK\$144,130,000) and HK\$4,780,000 (2001: HK\$3,452,000), respectively.

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

	HK\$'000
Hong Kong, held under medium term leases	7,800
Elsewhere in the PRC, held under medium term land use rights	194,166
	<u>201,966</u>

The net book value of the Group's motor vehicle held under a finance lease included in the total amount of fixed assets at 30 September 2002 is HK\$328,000 (2001: HK\$370,000).

Notes to Financial Statements

30 September 2002

13. FIXED ASSETS *(continued)*

The Group's investment property located in Hong Kong was revalued at 30 September 2002 by Chesterton Petty Limited on an open market value, existing use basis, at HK\$1,690,000. A revaluation deficit of HK\$172,000 has been charged to the profit and loss account resulting from the revaluation. The investment property is leased to a third party under an operating lease, further details of which are included in note 28 to the financial statements. The investment property is held under the medium term lease.

The investment property and certain leasehold land and buildings of the Group with a total carrying value of HK\$100,750,000 (2001: HK\$36,887,000) were pledged to secure banking facilities granted to the Group (note 20) as at 30 September 2002.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	118,577	118,577
Due from subsidiaries	523,393	601,267
Due to a subsidiary	(2)	(2)
	<u>641,968</u>	<u>719,842</u>

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

Notes to Financial Statements

30 September 2002

14. INTERESTS IN SUBSIDIARIES (continued)

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	British Virgin Islands/ Hong Kong	US\$1	-	100	Trading of electronic products
Kenko International Company Limited	Hong Kong	HK\$10,000	-	100	Trading of electronic products
Putian Xinying Liquid Crystal Science and Technology Co., Ltd.**	PRC	HK\$16,500,000	-	100	Not yet commenced business

Notes to Financial Statements

30 September 2002

14. 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 the non-voting deferred shares are not entitled to any dividend, have no right to vote at general meetings, and only 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 registered during the year.

15. INTEREST IN AN ASSOCIATE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	7,158	10,090
Due from an associate	4,724	4,724
	<u>11,882</u>	<u>14,814</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 interest attributable to the Group	Principal activities
Taiwan Communication (Fujian) Company Limited	Corporate	PRC	40	Manufacture and trading of telecommunication products

Notes to Financial Statements

30 September 2002

16. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unlisted equity investments, outside Hong Kong, at cost	<u>11,625</u>	<u>11,625</u>

17. INVENTORIES

An analysis of the inventories as at the balance sheet date, net of provision, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	134,014	161,997
Work in progress	47,080	37,048
Finished goods	<u>58,363</u>	<u>61,643</u>
	<u>239,457</u>	<u>260,688</u>

The carrying amount of inventories carried at net realisable value included in the above balance amounted to HK\$9,682,000 (2001: HK\$26,904,000) as at the balance sheet date.

Notes to Financial Statements

30 September 2002

18. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current to 3 months	130,533	119,081
4 - 6 months	58,849	44,386
7 - 12 months	21,068	47,129
Over 1 year	29,303	31,944
	239,753	242,540
Less: Provision for doubtful debts	(26,280)	(36,943)
	213,473	205,597

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.

19. DUE FROM A RELATED COMPANY

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

Group			
	30 September	Maximum	1 October
Name	2002	amount during	2001
	HK\$'000	the year	HK\$'000
		HK\$'000	
Scientek Enterprise (Hong Kong) Limited	2,396	2,928	1,971

Notes to Financial Statements

30 September 2002

19. DUE FROM A RELATED COMPANY *(continued)*

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.

20. INTEREST-BEARING BANK BORROWINGS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts, secured	–	2,663
Bank loans, secured	143,982	110,864
Trust receipt loans, secured	12,324	10,107
	156,306	123,634
Bank overdrafts and trust receipt loans repayable within one year	12,324	12,770
Bank loans repayable:		
Within one year	133,073	110,864
In the second year	10,909	–
	143,982	110,864
	156,306	123,634
Portion classified as current liabilities	(145,397)	(123,634)
Non-current portion	10,909	–

The bank overdrafts, bank loans and trust receipt loans are secured by time deposits amounting to HK\$8,080,000 (2001: HK\$11,270,000), the investment property and certain leasehold land and buildings held by the Group (note 13) and a related company, and corporate guarantees given by certain related companies and the Company.

Notes to Financial Statements

30 September 2002

21. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current to 3 months	48,712	60,167
4 - 6 months	5,516	9,543
7 - 12 months	89	960
Over 1 year	1,744	2,106
	<u>56,061</u>	<u>72,776</u>

22. CONVERTIBLE BONDS

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
At beginning of year	59,675	75,175
Converted during the year (<i>note 25(b)</i>)	(3,120)	(4,650)
Redeemed during the year	(56,555)	(10,850)
	<u>-</u>	<u>59,675</u>
At end of year	-	59,675

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 bore 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 carried 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, subject to a minimum conversion price of HK\$0.10 per Share.

Notes to Financial Statements

30 September 2002

22. CONVERTIBLE BONDS (continued)

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

The Company failed to meet a term of the subscription agreement of the CB 2003 in respect of the Group's interest coverage ratio for the year ended 30 September 2001 and during the current year. The bondholders had an option to demand immediate repayment in full of the CB 2003.

At the beginning of the year, the Company had outstanding convertible bonds with an aggregate principal amount of US\$7,700,000. During the year, certain bondholders exercised their right to convert convertible bonds with an aggregate principal amount of US\$400,000 (equivalent to approximately HK\$3,120,000) into 4,378,442 and 4,397,519 ordinary shares of the Company with a par value of HK\$0.10 each and a subscription price of approximately HK\$0.35625 per Share and HK\$0.3547 per Share, respectively. In addition, the Company redeemed the remaining convertible bonds with an aggregate principal amount of US\$7,300,000 (equivalent to approximately HK\$56,555,000) presented for conversion. A premium on redemption of HK\$9,561,000 was paid.

As at 30 September 2002, the convertible bonds had been fully converted or redeemed.

Notes to Financial Statements

30 September 2002

23. FINANCE LEASE PAYABLE

The Group leases a motor vehicle. This lease is classified as a finance lease and has a remaining lease term of two years.

At 30 September 2002, the total future minimum lease payments under the finance lease together with the present value of the minimum lease payments, were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	118	118	102	88
In the second year	98	118	94	103
In the third to fifth years, inclusive	-	98	-	94
Total minimum finance lease payments	216	334	196	285
Less: Future finance charges	(20)	(49)		
Total net finance lease payable	196	285		
Less: Portion classified as current liability	(102)	(88)		
Non-current portion	94	197		

Notes to Financial Statements

30 September 2002

24. DEFERRED TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	340	281
Charge/(credit) for the year (note 9)	(340)	59
At end of year	<u>-</u>	<u>340</u>

The Group had no significant unprovided deferred tax as at 30 September 2002. In last year, deferred tax was provided for, under the liability method, at the rate of 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 2002 (2001: Nil).

25. SHARE CAPITAL

	2002 HK\$'000	2001 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>		
1,016,001,301 (2001: 1,012,079,340) ordinary shares of HK\$0.10 each	<u>101,600</u>	<u>101,208</u>

Notes to Financial Statements

30 September 2002

25. SHARE CAPITAL (continued)

Movements of the share capital of the Company during the year were as follows:

	Notes	Number of shares issued	Par value HK\$'000
At beginning of year		1,012,079,340	101,208
Repurchase of shares	(a)	(4,854,000)	(486)
Conversion of convertible bonds	(b)	8,775,961	878
At 30 September 2002		1,016,001,301	101,600

(a) During the year, the Company repurchased 4,854,000 ordinary shares of HK\$0.10 each from The Stock Exchange of Hong Kong Limited at a consideration of HK\$1,264,000. The premium of HK\$778,000 paid on the repurchase of these shares has been charged against the share premium account and an amount of HK\$486,000 was transferred from the retained profits to the capital redemption reserve (note 26).

(b) During the year, 4,378,442 and 4,397,519 ordinary shares of HK\$0.10 each of the Company were issued at subscription prices of approximately HK\$0.35625 per share and HK\$0.3547 per share, respectively, upon the conversion of convertible bonds with a principal amount of US\$200,000 and US\$200,000, respectively, by certain bondholders.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 18 and 19.

At the balance sheet date, the Company had 39,550,000 share options outstanding under the Scheme with an exercise price of HK\$1.20 per share exercisable up to 24 October 2009. No share options were granted or cancelled, or lapsed, during the year.

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 at HK\$1.20 each and cash proceeds to the Company of approximately HK\$47,460,000 before related expenses.

Notes to Financial Statements

30 September 2002

26. 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 2000	172,267	56,471	-	27,612	(6,049)	440,143	690,444
Arising on repurchase of shares	(45)	-	23	-	-	(23)	(45)
Arising on conversion of convertible bonds	3,639	-	-	-	-	-	3,639
Surplus on revaluation of fixed assets	-	-	-	6,177	-	-	6,177
Net profit for the year	-	-	-	-	-	5,453	5,453
At 30 September 2001 and 1 October 2001	175,861	56,471	23	33,789	(6,049)	445,573	705,668
Arising on repurchase of shares (note 25(a))	(778)	-	486	-	-	(486)	(778)
Arising on conversion of convertible bonds (note 25(b))	2,242	-	-	-	-	-	2,242
Surplus on revaluation of fixed assets (note 13)	-	-	-	22,665	-	-	22,665
Exchange adjustment on translation of the financial statements of a foreign subsidiary	-	-	-	-	(602)	-	(602)
Net profit for the year	-	-	-	-	-	30,219	30,219
Proposed final dividend	-	-	-	-	-	(10,160)	(10,160)
At 30 September 2002	177,325	56,471	509	56,454	(6,651)	465,146	749,254
Reserves retained by:							
Company and subsidiaries	177,325	56,471	509	56,454	(6,651)	473,488	757,596
Associate	-	-	-	-	-	(8,342)	(8,342)
At 30 September 2002	177,325	56,471	509	56,454	(6,651)	465,146	749,254

Notes to Financial Statements

30 September 2002

26. 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 2000	172,267	118,377	-	271,777	562,421
Arising on repurchase of shares	(45)	-	23	(23)	(45)
Arising on conversion of convertible bonds	3,639	-	-	-	3,639
Net loss for the year	-	-	-	(9,249)	(9,249)
At 30 September 2001 and 1 October 2001	175,861	118,377	23	262,505	556,766
Arising on repurchase of shares (<i>note 25(a)</i>)	(778)	-	486	(486)	(778)
Arising on conversion of convertible bonds (<i>note 25(b)</i>)	2,242	-	-	-	2,242
Net loss for the year	-	-	-	(19,628)	(19,628)
Proposed final dividend	-	-	-	(10,160)	(10,160)
At 30 September 2002	177,325	118,377	509	232,231	528,442

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 at the date of acquisition over the aggregate of the nominal value of the Company's shares issued in exchange therefor.

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

Notes to Financial Statements

30 September 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000
Profit from operating activities	54,047	23,888
Depreciation	36,412	34,309
Interest income	(384)	(1,635)
Gain on disposal of fixed assets	-	(69)
Revaluation deficit/(surplus) on fixed assets	(2,870)	7,351
Revaluation deficit on an investment property	172	-
Decrease in inventories	21,231	7,475
Decrease/(increase) in accounts receivable	(7,876)	33,759
Decrease in prepayments, deposits and other receivables	35,275	4,579
Decrease/(increase) in an amount due from a related company	(425)	580
Increase/(decrease) in accounts payable	(16,715)	21,357
Decrease in accrued liabilities and other payables	(880)	(704)
Increase/(decrease) in trust receipt loans with original maturity of more than three months, secured	6,049	(5,444)
Net cash inflow from operating activities	<u>124,036</u>	<u>125,446</u>

Notes to Financial Statements

30 September 2002

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

(b) Analysis of changes in financing during the year

	Issued share capital and share premium account HK\$'000	Convertible bonds HK\$'000	Bank loans, secured HK\$'000	Finance lease obligations HK\$'000
At 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)	-	-
At 30 September 2001 and 1 October 2001	277,069	59,675	110,864	285
Net cash inflow/(outflow) from financing	(1,264)	(56,555)	33,118	(89)
Conversion of convertible bonds	3,120	(3,120)	-	-
At 30 September 2002	278,925	-	143,982	196

(c) Major non-cash transaction

During the year, deposits for the acquisition of fixed assets of HK\$80,582,000 (2001: Nil) were utilised as part of the consideration paid for the purchases of fixed assets.

Notes to Financial Statements

30 September 2002

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property located in Hong Kong (note 13) under an operating lease arrangement, with the lease negotiated for a term of three years.

At 30 September 2002, the Group had total future minimum lease receivables under the non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	269	-
In the second to fifth years, inclusive	179	-
	<u>448</u>	<u>-</u>

(b) As lessee

The Group leases certain of its leasehold land and buildings under operating lease arrangements. Leases for leasehold land and buildings are negotiated for terms ranging from one to three years.

At 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	63	664
In the second to fifth years, inclusive	-	44
	<u>63</u>	<u>708</u>

Notes to Financial Statements

30 September 2002

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following contracted commitments at the balance sheet date:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Acquisition of fixed assets and construction works	5,917	71,813
Capital contributions to wholly-owned subsidiaries established in the PRC	14,937	12,737
	<u>20,854</u>	<u>84,550</u>

The Company did not have any significant commitments at the balance sheet date (2001: Nil).

30. CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to subsidiaries	<u>-</u>	<u>-</u>	<u>71,000</u>	<u>56,000</u>

At the balance sheet date, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK\$12,324,000 (2001: HK\$12,770,000).

Notes to Financial Statements

30 September 2002

31. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

- (a) The Group sold finished goods amounting to HK\$6,524,000 (2001: HK\$6,592,000) to a company of which the spouse of Ms. Wong Choi Kam (a director of the Company), is also a director and controlling shareholder.

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

- (b) The Group's long term bank loan amounting to HK\$10,909,000 (2001: Nil) was secured by the leasehold land and building of a related company. The Group's short term bank loans amounting to HK\$101,255,000 (2001: HK\$94,727,000) were secured by the corporate guarantees of certain related companies. These related companies are beneficially owned by the late Mr. Wong Choi Fung (a former director of the Company), Ms. Wong Choi Kam and Mr. Wong Kim Seong (a non-executive director of the Company).

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

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 January 2003.