1. GROUP 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 throughout the year ended 31 December 2001, rather than from 28 December 2001. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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 provisions 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.

(c) Subsidiaries and controlled enterprises

A subsidiary 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.

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

(c) Subsidiaries and controlled enterprises *(Cont'd)*

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(g)), 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(g)).

(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.

(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

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

(f) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction 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.

(g) 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; and

— 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.

(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.

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

(h) 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.

(i) 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.

(j) 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, provisions 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.

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

(k) 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 tax 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 at the rate applicable.

(l) 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.

(m) 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.

Expenditure on development activities comprises all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Development costs are therefore recognised as expenses in the period in which they are incurred.

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) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's entities in the People's Republic of China (the "PRC") are recognised as an expense in the income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(q) Cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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

(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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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 value added tax.

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

	Group's turnover		Contribution to (loss)/profit from operations	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Personal computer peripherals	**92,740**	182,665	**6,618**	33,040
Networking products	**31,067**	81,457	**5,263**	28,419
Computer accessories	**6,562**	11,732	**1,249**	4,231
	130,369	275,854	**13,130**	65,690
Operating expenses			**(64,462)**	(29,935)
			(51,332)	35,755

Pursuant to the relevant tax regulations of the PRC, a 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	
	2002	2001
	$'000	$'000
Interest income	**283**	116
Net (loss)/gain on disposal of fixed assets	**(2,841)**	71
Net exchange gain	**1,326**	115
Gains on disposal of scrap materials	**1,440**	1,519
	208	1,821

6. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		The Group	
		2002	2001
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**520**	1,270
(b)	Staff costs:		
	Staff costs*		
	— wages, salaries and benefits	**17,067**	22,174
	— contributions to defined contribution retirement schemes	**507**	596
		17,574	22,770
	Average number of employees during the year	**1,166**	1,708
(c)	Other items:		
	Auditors' remuneration	**1,217**	1,044
	Cost of inventories*	**117,239**	210,164
	Depreciation*	**9,957**	9,985
	Operating lease charges in respect of properties*	**5,267**	5,236
	Provision for doubtful debts	**30,662**	5,902
	Provision for inventory obsolescence	**7,076**	401
	Research and development costs	**2,743**	1,407

* Cost of inventories includes $22,719,000 (2001: $28,792,000) 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:

	2002 $'000	2001 $'000
Fees	365	—
Salaries and other emoluments	714	1,223
Discretionary bonuses	—	—
Retirement scheme contributions	—	—
	1,079	1,223

Included in the directors' remuneration were fees of $365,000 (2001: $Nil) paid to independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	Number of directors 2002	 2001
$Nil — $1,000,000	7	7

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2001: three) are directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other three (2001: two) individuals are as follows:

	2002 $'000	2001 $'000
Salaries and other emoluments	1,130	600
Discretionary bonuses	—	—
Retirement scheme contributions	13	—
	1,143	600

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Cont'd)*

The emoluments of the three (2001: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2002	2001
$Nil — $1,000,000	**3**	2

There were no amount paid during the year ended 31 December 2002 to directors or any of the five highest paid individuals as inducement to join or upon joining the Company or the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the year ended 31 December 2002.

9. TAXATION

(a) Taxation in the consolidated income statement represents:

	2002	2001
	$'000	$'000
Provision for tax for the year:		
— Income tax outside Hong Kong	—	3,284
— Hong Kong profit tax	—	—
	—	3,284
Overprovision of PRC income tax in respect of prior year	—	(502)
	—	2,782

No provisions have 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 2002 and 2001.

No provision has been made for PRC income tax as the Group did not have profits assessable to PRC income tax for the year ended 31 December 2002. As a 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%, the overprovision in respect of the prior year was written back during the year ended 31 December 2001.

No provision for Taiwan income tax has been made for the year ended 31 December 2002 as the subsidiary in Taiwan sustained a loss for taxation purpose. The provision for Taiwan income tax was calculated at the applicable tax rate of 25% on the estimated assessable profits in 2001.

(Expressed in Hong Kong dollars)

9. TAXATION *(Cont'd)*

(b) Taxation in the consolidated balance sheet represents:

	2002 $'000	2001 $'000
Provision for income tax for the year	—	3,284
Provisional income tax paid	(228)	(16)
	(228)	3,268
Balance of income tax provision relating to prior years	10,100	6,832
	9,872	10,100

(c) Deferred taxation

Deferred tax assets of the Company have not been recognised in the financial statements as it is not certain that the benefits will be realised in the foreseeable future.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $53,718,000 (2001: loss of $9,000) which has been dealt with in the financial statements of the company.

11. DIVIDENDS

(a) Dividend attributable to the year

	2002 $'000	2001 $'000
Final dividend proposed after the balance sheet date of $Nil (2001: 0.7 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.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2002 $'000	2001 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.7 cent (2001: $Nil) per share	2,905	—

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's loss attributable to shareholders of $51,852,000 (2001: profit of $31,703,000) and the weighted average of 409,136,986 (2001: 300,000,000) ordinary shares in issue during the year, being the shares that would have been in issue throughout the year on the assumption that the Reorganisation as set out in the section headed "Resolutions of all shareholders of the company passed on 28 December 2001" in the Appendix V to the Prospectus were completed on 1 January 2001.

There were no potential dilutive shares in issue during the year ended 31 December 2002.

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 2002	7,483	6,054	63,049	1,090	77,676
Additions	—	1,016	8,899	—	9,915
Disposals	—	—	(4,055)	—	(4,055)
As at 31 December 2002	7,483	7,070	67,893	1,090	83,536
Accumulated depreciation:					
As at 1 January 2002	1,472	2,612	24,980	786	29,850
Charge for the year	144	1,015	8,608	190	9,957
Written back on disposal	—	—	(1,214)	—	(1,214)
As at 31 December 2002	1,616	3,627	32,374	976	38,593
Net book value:					
As at 31 December 2002	5,867	3,443	35,519	114	44,943
As at 31 December 2001	6,011	3,442	38,069	304	47,826

13. FIXED ASSETS *(Cont'd)*

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

	2002 $'000	2001 $'000
In Hong Kong		
— Medium-term leases	**1,236**	1,285
Freehold outside Hong Kong	**4,631**	4,726
	5,867	6,011

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

Certain properties with net book value of $1,236,000 (2001: $6,011,000) are pledged to secure mortgaged loans and other banking facilities granted to the Group.

14. CONSTRUCTION IN PROGRESS

Construction in progress in the consolidated balance sheet represented costs for mould casting which was not yet complete as at 31 December 2002.

15. INVESTMENTS IN SUBSIDIARIES

The Company

	2002 $'000	2001 $'000
Unlisted shares, at cost	**122,000**	122,000
Less: impairment loss	**(51,600)**	—
	70,400	122,000

(Expressed in Hong Kong dollars)

15. INVESTMENTS 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 of incorporation/ establishment and operation	Particulars of issued and paid up capital	Attributable equity interest % held by Company	Attributable equity interest % held by subsidiary	Principal activity
Pablo Enterprises Ltd.	British Virgin Islands	10,000 shares of US$1 each	100	—	Investment holding
Sky Hawk Computer	Belgium	EUR61,973.38	—	100	Investment holding
Sky Hawk Computer (Shenzhen) Company Limited*	PRC	US$5,650,000	—	100	Manufacturing of computer peripherals
San Hawk Technic Co., Ltd.	Taiwan	NT$10,000,000	—	100	Trading of computer peripherals
Eagle Lord Development Limited ("Eagle Lord")	Hong Kong	10,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each#	—	100	Property holding and trading of computer peripherals
Eagle Lord Trading International (Shenzhen) Limited*	PRC	HK$350,000	—	100	Trading of computer peripherals
Glory Trading Limited	Samoa	10,000 shares of US$1 each	—	100	Trading of computer peripherals
Newton Investments Limited	Samoa	11,000 shares of US$1 each	—	100	Dormant
Sky Hawk Computer Group Limited	British Virgin Islands	1 share of US$1 each	—	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 or 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	
	2002	2001
	$'000	$'000
Raw materials	**23,253**	21,868
Work in progress	**14,304**	15,189
Finished goods	**6,837**	1,802
	44,394	38,859

Included in the raw materials are inventories of $3,944,000 (2001: $1,083,000), stated net of a general provision of $3,204,000 (2001: $401,000), made in order to state these inventories at the lower of their cost and estimated net realisable value. In addition to the general provision, obsolete inventories amounted to $3,872,000 (2001: $Nil) were fully written off during the year.

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade receivables	**60,416**	95,589	**—**	—
Prepayments, deposits and other receivables	**3,455**	14,418	**26**	936
Amounts due from subsidiaries	**—**	—	**38,662**	—
	63,871	110,007	**38,688**	936

All of the trade and other receivables, except the amounts due from subsidiaries, are expected to be recovered within one year.

Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

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

	The Group	
	2002	2001
	$'000	$'000
Within 90 days	**30,052**	63,706
Over 90 days but within 180 days	**19,319**	27,015
More than 180 days but less than one year	**11,045**	4,868
	60,416	95,589

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

18. CASH AND CASH EQUIVALENTS

	The Group 2002 $'000	The Group 2001 $'000	The Company 2002 $'000	The Company 2001 $'000
Cash at bank and in hand	**15,890**	7,155	**1,002**	—
Cash and cash equivalents in the balance sheet	**15,890**	7,155	**1,002**	—
Bank overdrafts *(note 19)*	**(1,000)**	—		
Cash and cash equivalents in the cash flow statement	**14,890**	7,155		

19. BANK LOANS AND OVERDRAFTS

(a) At 31 December 2002, the bank loans and overdrafts were analysed as follows:

	The Group 2002 $'000	The Group 2001 $'000
Secured bank overdrafts	**1,000**	—
Bank loans		
— secured	**—**	1,000
— unsecured	**1,885**	—
Secured trust receipt loans	**9,439**	9,170
	12,324	10,170

All bank loans and overdrafts are repayable within one year.

(b) The banking facilities comprising overdrafts and trust receipts loans are secured by the following assets owned by the Group. These facilities totalled $17,800,000 (2001: $44,754,000) and were utilised to the extent of $10,439,000 (2001: $10,170,000) at 31 December 2002.

	2002 $'000	2001 $'000
Inventories released under trust receipts loans	**9,439**	9,170
Carrying value of properties held by:		
— group	**1,236**	6,011
— shareholder of the Company	**—**	5,303
	10,675	20,484

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade payables	**27,915**	49,634	**—**	—
Accrued expenses and other payables	**11,640**	13,399	**19**	—
Amounts due to subsidiaries	**—**	—	**—**	945
	39,555	63,033	**19**	945

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

	The Group	
	2002	2001
	$'000	$'000
Due within one month or on demand	**9,074**	20,419
Due after one month but within three months	**13,070**	18,296
Due after three months but within six months	**5,771**	6,579
Over six months but less than one year	**—**	4,340
	27,915	49,634

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

21. EMPLOYEE BENEFITS

(a) Defined contribution retirement schemes

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

The Company's subsidiaries established in the PRC participate in the central pension fund scheme organised by the relevant local government authority in the PRC. These subsidiaries are required to make contributions to the retirement scheme at a certain percentage of the basic salaries of its employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the company, the Group did not have any significant contingent liabilities as at 31 December 2002 in respect of the retirement of its employees.

21. EMPLOYEE BENEFITS *(Cont'd)*

(b) Equity compensation benefits

Share option scheme

The Company has a share option scheme (the "scheme") which become effective on 17 January 2002 under which the directors of the Company may grant options to eligible employees or persons, including directors of any company in the Group, to subscribe for shares of the Company.

Upon payment of a nominal consideration of $1 per option, it may be exercised at any time during the exercisable period, which is determinable by the directors of the Company and may commence from the date of acceptance 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 under the scheme. The exercise price is determined by the directors of the Company, and 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 share.

The maximum number of shares in respect of which options may be granted 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. SHARE CAPITAL

	Note	2002 No. of shares million	2002 Amount $'000	2001 No. of shares million	2001 Amount $'000
Authorised:					
Ordinary shares of $0.10 each		4,000	400,000	4,000	400,000
Issued and fully paid:					
At 1 January		2	200	10	3,389
Issuance of shares for the acquisition of subsidiaries		—	—	2	200
Capital elimination on combination		—	—	(10)	(3,389)
Shares issued under the reorganisation	*(a)*	298	29,800	—	—
Shares issued under the Placing and Public Offer	*(b)*	100	10,000	—	—
Shares issued under the over-allotment option	*(c)*	15	1,500	—	—
At 31 December		415	41,500	2	200

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

(i) the authorised share capital of the Company was increased on 17 January 2002 from $100,000 to $400,000,000 by the creation of a further 3,998 million shares of $0.10 each;

(ii) share capital of $200,000 divided into 2 million shares of $0.10 each were issued and credited as fully paid on 17 January 2002; and

(iii) 298 million shares were allotted and issued, by way of capitalisation of the sum of $29,800,000 standing to the credit of the share premium account of the Company credited as fully paid at par to the existing shareholders on 17 January 2002.

(b) On 17 January 2002, a further 100 million shares 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.

22. SHARE CAPITAL *(Cont'd)*

(c) On 6 February 2002, the underwriters of the public offering exercised the over-allotment option for the issuance of 15 million shares of $0.10 each at a price of $0.50 per share. The net proceeds from the issuance of 15 million shares amounted to $7,237,000 net of related expenses from the issue.

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

23. RESERVES

The Group

	Share premium $'000	Statutory reserve fund $'000	Retained profits $'000	Total $'000
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)	—
At 31 December 2001	3,189	228	118,657	122,074
At 1 January 2002	3,189	228	118,657	122,074
Loss for the year	—	—	(51,852)	(51,852)
Shares issued upon listing on Stock Exchange	45,737	—	—	45,737
Capitalisation issue	(29,800)	—	—	(29,800)
Share issuance expense	(12,534)	—	—	(12,534)
Dividend	—	—	(2,905)	(2,905)
At 31 December 2002	6,592	228	63,900	70,720

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.

23. 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
At 31 December 2001	3,189	118,611	(9)	121,791
At 1 January 2002	3,189	118,611	(9)	121,791
Loss for the year	—	—	(53,718)	(53,718)
Shares issued upon listing on Stock Exchange	45,737	—	—	45,737
Capitalisation issue	(29,800)	—	—	(29,800)
Share issuance expense	(12,534)	—	—	(12,534)
Dividend	—	—	(2,905)	(2,905)
At 31 December2002	6,592	118,611	(56,632)	68,571

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.

(c) At 31 December 2002, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to $68,571,000 (2001: $121,791,000) subject to the restriction stated in Note (b) above.

24. COMMITMENTS

Operating lease commitments

As at 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2002	2001
	$'000	$'000
Within 1 year	**5,646**	5,333
After 1 year but within 5 years	**20,025**	23,765
After 5 years	**—**	2,724
	25,671	31,822

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.

25. CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately $10,439,000 (2001: $Nil).

26. RELATED PARTY TRANSACTIONS

During the year, certain banking facilities of the Group totalling NT$95,000,000 ($21,739,000) were secured by a residential property of a shareholder and the personal guarantees of the controlling shareholders. Such security and guarantees were released on 11 September 2002 and replaced by corporate guarantees of the Company.

		The Group	
	(in thousand)	**2002**	2001
Facilities amounts	NT$	—	95,000
	US$	—	3,000
	HK$	—	1,000
Utilised balance	HK$	—	10,170

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.

27. 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

	2002 $'000	2001 $'000
Europe	34,538	124,684
Asia Pacific	43,928	69,763
North America	46,981	67,185
South Africa	4,922	14,222
	130,369	275,854

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.

28. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.