

30 September 2003

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda with limited liability under the Bermuda Companies Act 1981 (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 new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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 adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and jointly-controlled entity are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. This SSAP is required to be applied retrospectively. The adoption of the revised SSAP 11 has had no material effect on the financial statements because its effect on the results of both the current year and last year is not significant.

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## 2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in notes 3 and 29(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has had no material effect on the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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, certain fixed assets and short term investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2003. 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.

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

#### **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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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

#### Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity 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.

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), 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.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fixed assets and depreciation**

Fixed assets, other than investment property and construction in progress, 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 property, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Land held in Mainland China	
under medium term land use rights	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.

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

#### Fixed assets and depreciation (continued)

Construction in progress represents buildings, structures and plant and machinery under construction or installation, which 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 reclassified to the appropriate category of fixed assets when completed and ready for use.

#### Investment property

Investment property is an interest in land and building in respect of which construction work and development have been completed and which is intended to be held on a long term basis for its investment potential, any rental income being negotiated at arm's length. Such property is not depreciated and is stated at its open market value on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of investment property 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.

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.

#### Leased assets

Lease that transfers substantially all the rewards and risks of ownership of assets to the Group, other than legal title, is accounted for as a finance lease. 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. Asset held under capitalised finance lease is included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful life of the asset. The finance costs of such lease are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease term.

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.

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### 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 a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value 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 is credited to the profit and loss account to the extent of the amount previously charged.

#### Short term investments

Certificates of deposit are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less any impairment losses, on an individual basis. Investments other than certificates of deposit are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of such investments are credited or charged to the profit and loss account in the period in which they arise.

#### 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.

#### 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.

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

#### 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.

#### Employee benefits

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### *Pension schemes*

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

The employees of the Group's subsidiaries which operate in Mainland China are members of the central pension scheme operated by the local municipal government. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.



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

#### **Employee benefits *(continued)***

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### **Borrowing costs**

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

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

#### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

#### **Foreign currencies *(continued)***

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and jointly-controlled entity and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAPs 11 and 15 has had no material effect on the financial statements.

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 29(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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## 4. SEGMENT INFORMATION

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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which is subject to risks and returns that are different from those of the 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 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.

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## 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	163,275	154,582	488,058	473,626	40,004	65,052	691,337	693,260
Other revenue	98	750	409	3,113	20	204	527	4,067
Total	<u>163,373</u>	<u>155,332</u>	<u>488,467</u>	<u>476,739</u>	<u>40,024</u>	<u>65,256</u>	<u>691,864</u>	<u>697,327</u>
Segment results	<u>7,167</u>	<u>11,193</u>	<u>19,503</u>	<u>42,784</u>	<u>1,503</u>	<u>1,039</u>	<u>28,173</u>	<u>55,016</u>
Interest and unallocated other revenue and gains							804	392
Unallocated expenses							(1,035)	(1,361)
Profit from operating activities							27,942	54,047
Finance costs							(6,368)	(17,326)
Share of profit/(loss) of a jointly-controlled entity							363	(2,932)
Profit before tax							21,937	33,789
Tax							(5,156)	(3,570)
Net profit from ordinary activities attributable to shareholders							<u>16,781</u>	<u>30,219</u>

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Electronic components and parts		Consumer electronic products		Integrated circuits		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	380,459	391,121	433,620	439,530	41,333	63,542	855,412	894,193
Interest in a jointly-controlled entity							16,288	11,882
Unallocated assets							208,133	207,077
<b>Total assets</b>							<b>1,079,833</b>	<b>1,113,152</b>
Segment liabilities	34,229	27,729	47,414	48,569	12,188	3,516	93,831	79,814
Unallocated liabilities							119,053	172,324
<b>Total liabilities</b>							<b>212,884</b>	<b>252,138</b>
Other segment information:								
Capital expenditure	2,723	86,024	14,264	18,719	-	-	16,987	104,743
Unallocated amounts							31	877
							<b>17,018</b>	<b>105,620</b>
Depreciation	21,448	17,604	22,723	17,612	-	-	44,171	35,216
Unallocated amounts							1,414	1,196
							<b>45,585</b>	<b>36,412</b>
Provision for inventories	-	30,723	-	4,232	-	-	-	34,955
Provision/(write-back of provision) for doubtful debts	3,728	(3,047)	4,901	(5,756)	885	(1,860)	9,514	(10,663)
Surplus on revaluation of fixed assets, net	-	(222)	-	(340)	-	-	-	(562)
Unallocated amounts							-	(2,308)
								(2,870)
Deficit on revaluation of an investment property							90	172
Surplus on revaluation recognised directly in equity	-	14,653	-	7,365	-	-	-	22,018
Unallocated amounts							-	647
								22,665

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## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Other Asian countries		American countries		European countries		African countries		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:														
Sales to external customers	159,750	182,355	113,136	449,779	115,836	32,263	115,954	9,490	110,046	17,794	76,615	1,579	691,337	693,260
Other segment information:														
Segment assets	156,239	144,285	875,322	945,807	7,974	6,036	15,824	1,775	14,006	11,625	10,468	3,624	1,079,833	1,113,152
Capital expenditure	31	191	16,987	105,429	-	-	-	-	-	-	-	-	17,018	105,620

## 5. TURNOVER

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

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**6. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>605,206</b>	564,094
Depreciation	<b>45,585</b>	36,412
Minimum lease payments under operating leases in respect of land and buildings	<b>545</b>	680
Auditors' remuneration	<b>930</b>	950
Staff costs (excluding directors' remuneration – note 8(a)):		
Wages, salaries and allowances	<b>111,823</b>	106,637
Pension schemes contributions (defined contribution schemes)***	<b>4,073</b>	4,541
	<b>115,896</b>	111,178
Provision/(write-back of provision) for doubtful debts*	<b>9,514</b>	(10,663)
Write-off and provision for other receivables*	<b>1,768</b>	–
Provision for inventories**	–	34,955
Revaluation surplus on fixed assets, net*	–	(2,870)
Revaluation deficit on an investment property*	<b>90</b>	172
Exchange gains, net	<b>(56)</b>	(838)
Unrealised gain on revaluation of short term investments	<b>(42)</b>	–
Net rental income	<b>(420)</b>	(378)
Gain on disposal of fixed assets	<b>(19)</b>	–
Interest income	<b>(341)</b>	(384)

The cost of inventories sold includes approximately HK\$142,337,000 (2002: HK\$126,117,000) 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.

\*\*\* As at 30 September 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

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## 7. FINANCE COSTS

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Interest on bank loans wholly repayable within five years	<b>6,353</b>	7,408
Interest on convertible bonds	-	331
Premium on redemption of convertible bonds	-	9,561
Interest on a finance lease	<b>15</b>	26
	<hr/> <b>6,368</b> <hr/>	<hr/> 17,326 <hr/>

## 8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

### (a) Directors' remuneration

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Fees	<b>240</b>	444
Other emoluments:		
Salaries and allowances	<b>9,093</b>	7,814
Pension scheme contributions	<b>60</b>	60
	<hr/> <b>9,153</b> <hr/>	<hr/> 7,874 <hr/>
	<hr/> <b>9,393</b> <hr/>	<hr/> 8,318 <hr/>

The fees include HK\$240,000 (2002: HK\$444,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).



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## 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	
	2003	2002
Nil to HK\$1,000,000	4	8
HK\$1,000,001 to HK\$1,500,000	-	2
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	3	1
	<u>8</u>	<u>12</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

### (b) Five highest paid employees

The five highest paid employees during the year included five (2002: five) directors, details of whose remuneration are set out in (a) above. One of the prior year's highest paid employees resigned as a director during the prior year. Details of the remuneration of this individual after her resignation as a director during the prior year are as follows:

	Group
	2002
	HK\$'000
Salary and allowances	70
Pension scheme contributions	4
	<u>74</u>

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**9. TAX**

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Provision for the year:		
Hong Kong	<b>2,208</b>	1,381
Elsewhere	<b>2,880</b>	7,092
Prior years' under/(over)provisions:		
Hong Kong	<b>68</b>	(554)
Elsewhere	-	(4,009)
Deferred tax ( <i>note 25</i> )	-	(340)
	<hr/>	<hr/>
Tax charge for the year	<b>5,156</b>	3,570
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 30 September 2003. Provisions for tax on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax has been made for the jointly-controlled entity because it did not generate any assessable profits during the year.

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## 9. TAX (continued)

In accordance with the applicable enterprise income tax law of Mainland China, 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 Company Law of the People's Republic of China 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 is 15% (2002: 15%). On 14 April 2003, an additional tax concession was granted by the local municipal tax bureau, under which the effective income tax rate applicable to Fujian Xinwei is revised to 10% for the period from 1 January 2003 to 31 December 2003, in place of the tax arrangements as mentioned above. As a result, for the period from 1 October 2002 to 31 December 2002, 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 in respect of the fourth phase of the capital investment and a tax rate of 15% has been used in respect of the first, second and third phases of the capital investment. For the period from 1 January 2003 to 30 September 2003, a provision for income tax has been made at a tax rate of 10% for the entire assessable profit attributable to Fujian Xinwei.

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 2003.

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## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 September 2003 dealt with in the financial statements of the Company, was HK\$7,781,000 (2002: HK\$19,628,000) (note 28).

## 11. DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Proposed final – 1 cent (2002: 1 cent) per ordinary share	<u>10,160</u>	<u>10,160</u>

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

## 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\$16,781,000 (2002: HK\$30,219,000) and the weighted average of 1,016,001,301 (2002: 1,014,635,986) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 30 September 2003 and 2002 have not been disclosed, as all potential ordinary shares of the Group outstanding during these years in respect of the deemed exercise of all share options had anti-dilutive effects on the basic earnings per share for these years.

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**13. FIXED ASSETS****Group**

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements 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	1,690	201,966	46,298	327,886	18,251	16,089	932	320	613,432
Additions	-	-	1,931	5,093	726	353	-	8,915	17,018
Disposals	-	-	-	(59)	-	(2,021)	-	-	(2,080)
Transfers	-	6,756	668	-	-	-	-	(7,424)	-
Revaluation	(90)	-	-	-	-	-	-	-	(90)
<b>At 30 September 2003</b>	<b>1,600</b>	<b>208,722</b>	<b>48,897</b>	<b>332,920</b>	<b>18,977</b>	<b>14,421</b>	<b>932</b>	<b>1,811</b>	<b>628,280</b>
Accumulated depreciation:									
At beginning of year	-	-	6,789	115,680	13,153	9,845	699	-	146,166
Provided during the year	-	8,331	4,181	29,492	1,862	1,623	96	-	45,585
Disposals	-	-	-	(29)	-	(1,010)	-	-	(1,039)
<b>At 30 September 2003</b>	<b>-</b>	<b>8,331</b>	<b>10,970</b>	<b>145,143</b>	<b>15,015</b>	<b>10,458</b>	<b>795</b>	<b>-</b>	<b>190,712</b>
Net book value:									
<b>At 30 September 2003</b>	<b>1,600</b>	<b>200,391</b>	<b>37,927</b>	<b>187,777</b>	<b>3,962</b>	<b>3,963</b>	<b>137</b>	<b>1,811</b>	<b>437,568</b>
At 30 September 2002	1,690	201,966	39,509	212,206	5,098	6,244	233	320	467,266
An analysis of cost or valuation:									
At cost	-	-	48,897	-	18,977	-	932	1,811	70,617
At valuation:									
Open market value	1,600	7,800	-	-	-	-	-	-	9,400
Depreciated replacement cost	-	200,922	-	332,920	-	14,421	-	-	548,263
	<b>1,600</b>	<b>208,722</b>	<b>48,897</b>	<b>332,920</b>	<b>18,977</b>	<b>14,421</b>	<b>932</b>	<b>1,811</b>	<b>628,280</b>

The Group's leasehold land and buildings located in Hong Kong were revalued at 30 September 2002 by Chesterton Petty Limited, independent professionally qualified valuers, on an open market value, existing use basis, at HK\$7,800,000. The Group's leasehold land and buildings located in Mainland China and the Group's plant, machinery and office equipment, and motor vehicles, other than the current year's additions and transfer-in, were revalued at 30 September 2002 by Chesterton Petty Limited on a depreciated replacement cost basis, at HK\$194,166,000, HK\$327,827,000 and HK\$14,068,000, respectively.

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**13. FIXED ASSETS (continued)**

No professional valuation of such leasehold land and buildings, plant, machinery and office equipment, and motor vehicles was made as at 30 September 2003 because the directors are of the opinion that the value of such fixed assets at 30 September 2003 is not significantly different from the carrying amount at 30 September 2002 and that a further professional valuation would involve expense out of proportion to the value to the shareholders of the Group.

No professional valuation of the current year's additions and transfer-in of leasehold land and buildings, plant, machinery and office equipment, and motor vehicles was made as at 30 September 2003 because the directors are of the opinion that the value of such fixed assets at 30 September 2003 is not significantly different from the carrying amount at 30 September 2003.

Had the Group's leasehold land and buildings, plant, machinery and office equipment, and motor vehicles been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$168,952,000 (2002: HK\$170,627,000), HK\$177,140,000 (2002: HK\$199,430,000) and HK\$3,148,000 (2002: HK\$4,780,000), respectively.

The Group's leasehold land and buildings included above are held under the following lease terms:

	HK\$'000
Hong Kong, held under medium term leases	7,800
Mainland China, held under medium term land use rights	<u>200,922</u>
	<u><u>208,722</u></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 2003 is HK\$285,000 (2002: HK\$328,000).

The Group's investment property located in Hong Kong was revalued at 30 September 2003 by Chesterton Petty Limited on an open market value, existing use basis, at HK\$1,600,000. A revaluation deficit of HK\$90,000 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 30(a) to the financial statements. The investment property is held under a medium term lease.

The investment property and certain leasehold land and buildings of the Group with a total carrying value of HK\$76,679,000 (2002: HK\$100,750,000) were pledged to secure banking facilities granted to the Group (note 23) as at 30 September 2003.

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## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	118,577	118,577
Due from subsidiaries	496,808	523,393
Due to a subsidiary	(2)	(2)
	<b>615,383</b>	<b>641,968</b>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary/ 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

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**14. INTERESTS IN SUBSIDIARIES (continued)**

Name	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary/ registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xinwei Electronic Industrial Co. Ltd., Fujian **	People's Republic of China ("PRC")/ Mainland China	HK\$ 152,000,000	–	100	Manufacture and trading of electronic products
Sunway Information Technology Company Limited	British Virgin Islands	US\$1	–	100	Investment holding
Kenko International Company Limited	Hong Kong	HK\$10,000	–	100	Trading of electronic products
Putian Sunyee LCD Technology Co., Ltd. **	PRC/ Mainland China	HK\$36,000,000	–	100	Not yet commenced business

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.*

\*\* *The subsidiary is registered as wholly-foreign owned enterprise under the PRC law.*



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## 15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2003 HK\$'000	Group 2002 HK\$'000
Share of net assets	7,521	7,158
Due from a jointly-controlled entity	8,767	4,724
	16,288	11,882

The amount due from a jointly-controlled entity is unsecured, interest-free and repayable by quarterly instalments commencing from March 2004 to June 2006.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and principal operations	Percentage of ownership interest attributable to the Group	Principal activities
Taiwan Communication (Fujian) Company Limited ("Taiwan Com") *	Corporate	PRC/ Mainland China	40	Manufacture and trading of telecommunication products

\* The Group's interest in Taiwan Com was previously recorded as an associate in prior years financial statements. The reclassification has had no impact on the amounts previously recorded in the financial statements.

## 16. LONG TERM INVESTMENTS

	2003 HK\$'000	Group 2002 HK\$'000
Unlisted equity investments, outside Hong Kong, at cost	11,625	11,625

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## 17. INVENTORIES

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

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Raw materials	<b>165,693</b>	134,014
Work in progress	<b>38,621</b>	47,080
Finished goods	<b>56,980</b>	58,363
	<hr/> <b>261,294</b> <hr/>	<hr/> 239,457 <hr/>

The carrying amount of inventories carried at net realisable value included in the above balance amounted to HK\$572,000 (2002: HK\$9,682,000) as at the balance sheet date.

## 18. ACCOUNTS RECEIVABLE

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

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Current to 3 months	<b>159,251</b>	130,533
4 to 6 months	<b>22,280</b>	58,849
7 to 12 months	<b>5,076</b>	21,068
Over 1 year	<b>17,147</b>	29,303
	<hr/> <b>203,754</b> <hr/>	<hr/> 239,753 <hr/>
Less: Provision for doubtful debts	<b>(14,310)</b>	(26,280)
	<hr/> <b>189,444</b> <hr/>	<hr/> 213,473 <hr/>

The Group's trading terms with its customers are mainly 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. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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.

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## 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  Name	30 September 2003	Maximum amount outstanding during the year	1 October 2002
	HK\$'000	HK\$'000	HK\$'000
Scientek Enterprise (Hong Kong) Limited	<u>1,412</u>	<u>2,396</u>	<u>2,396</u>

Scientek Enterprise (Hong Kong) Limited is controlled by the spouse of Ms. Wong Choi Kam, a director of the Company. The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

## 20. SHORT TERM INVESTMENTS

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment funds, at fair value	5,617	–
Unlisted certificates of deposit with a residual maturity of less than one year, at amortised cost	<u>2,225</u>	–
	<u>7,842</u>	<u>–</u>

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## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS WITH BANKS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		127,961	103,577	52	62
Time deposits		3,087	31,480	-	-
		<b>131,048</b>	135,057	<b>52</b>	62
Less: Pledged time deposits with banks	23	(3,087)	(8,080)	-	-
Cash and cash equivalents		<b>127,961</b>	126,977	<b>52</b>	62

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$25,758,000 (2002: HK\$54,305,000). The RMB is not freely convertible into other currencies.

However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 22. ACCOUNTS PAYABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 3 months	65,613	48,712
4 to 6 months	3,468	5,516
7 to 12 months	265	89
Over 1 year	1,756	1,744
	<b>71,102</b>	56,061

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## 23. INTEREST-BEARING BANK BORROWINGS

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Bank loans, secured	<b>85,463</b>	143,982
Trust receipt loans, secured	<b>13,562</b>	12,324
	<b>99,025</b>	156,306
Trust receipt loans repayable within one year	<b>13,562</b>	12,324
Bank loans repayable:		
Within one year	<b>85,463</b>	133,073
In the second year	-	10,909
	<b>85,463</b>	143,982
	<b>99,025</b>	156,306
Portion classified as current liabilities	<b>(99,025)</b>	(145,397)
Non-current portion	-	10,909

The bank loans and trust receipt loans are secured by time deposits amounting to HK\$3,087,000 (2002: HK\$8,080,000) (note 21), 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.

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## 24. FINANCE LEASE PAYABLE

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

At 30 September 2003, the total future minimum lease payments under the finance lease and their present value, were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	98	118	94	102
In the second year	-	98	-	94
Total minimum finance lease payments	98	216	94	196
Less: Future finance charges	(4)	(20)		
Total net finance lease payable	94	196		
Less: Portion classified as current liability	(94)	(102)		
Non-current portion	-	94		

## 25. DEFERRED TAX

Group	2003	2002
	HK\$'000	HK\$'000
Balance at beginning of year	-	340
Credit for the year (note 9)	-	(340)
At end of year	-	-

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## 25. DEFERRED TAX (continued)

The revaluation 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 2003 (2002: Nil).

## 26. SHARE CAPITAL

	2003 HK\$'000	2002 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 ordinary shares of HK\$0.10 each	<u>101,600</u>	<u>101,600</u>

A summary of the transactions with reference to prior year movements of the issued share capital of the Company were as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Notes				
At 1 October 2001	1,012,079,340	101,208	175,861	277,069
Repurchase of shares (a)	(4,854,000)	(486)	(778)	(1,264)
Conversion of convertible bonds (b)	8,775,961	878	2,242	3,120
<b>At 30 September 2002 and 2003</b>	<b><u>1,016,001,301</u></b>	<b><u>101,600</u></b>	<b><u>177,325</u></b>	<b><u>278,925</u></b>

(a) In the prior 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 was charged against the share premium account and an amount of HK\$486,000 was transferred from the retained profits to the capital redemption reserve.

(b) In the prior 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.

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## 26. SHARE CAPITAL *(continued)*

### Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 27 to the financial statements.

## 27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 25 February 2003, the Company terminated its then share option scheme adopted on 3 September 1999 (the "Old Option Scheme") and adopted a new share option scheme (the "New Option Scheme"). The options granted under the Old Option Scheme will remain in force and effect.

Pursuant to the Old Option Scheme, the exercise price of the share options was determinable by the directors, but could not be less than the higher of (i) 80% of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five trading days immediately preceding the date of the offer of grant of the share options; or (ii) the nominal value of the shares of the Company.

In response to the amendments by the Hong Kong Stock Exchange in connection with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the Old Option Scheme and then adopted the New Option Scheme on 25 February 2003 as follows:

The purpose of the New Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the Group, and to enable the Group to recruit and retain high calibre professionals, executives and employees who are instrumental to the growth of the Group. Eligible participants of the New Option Scheme include the directors (including executive directors and non-executive directors), employees of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, joint venture partner or business alliance of the Group and shareholders of the Group. The New Option Scheme unless otherwise terminated or amended, will remain in force for a period of 10 years from 25 February 2003.



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## 27. SHARE OPTION SCHEME (continued)

The maximum numbers of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the New Option Scheme, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the New Option Scheme. As at 30 September 2003, the Company had outstanding 39,550,000 share options which were all granted under the Old Option Scheme and the total number of shares issuable for options was 39,550,000. It represented approximately 3.9% of the Company's shares in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted under the New Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options granted under the New Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is also the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in general meeting of the Company.

A share option may be accepted by a participant within 21 days from the date of the offer for grant of the option. The exercise period of the share options granted is determinable by the directors in accordance with the terms of the New Option Scheme, and commences from the date of acceptance of the offer of grant of the share options and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the higher of (i) the closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of the offer for grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for grant, which must be a business day; and (iii) the nominal consideration of HK\$1.

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## 27. SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

No share options were granted, exercised, cancelled, or lapsed under the share option schemes of the Company during the year.

The following share options were outstanding under the share option schemes of the Company during the year:

Name or category of participant	Number of share options at 1 October 2002 and at 30 September 2003	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at date of grant of options*** HK\$
<b>Directors</b>					
Ms. Wong Choi Kam	6,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Ms. Wong King Ching, Helen	1,500,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Mr. Leung Chi Fai	1,050,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	8,550,000				
Other employees in aggregate	31,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	39,550,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Hong Kong Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

At the balance sheet date, the Company had 39,550,000 share options outstanding under the share option scheme of the Company. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 39,550,000 additional ordinary shares of the Company and additional share capital of HK\$3,955,000 and share premium of HK\$43,505,000 (before issue expenses).

# Notes to Financial Statements

Sunway International Holdings Limited

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## 28. RESERVES

Group	Share	Contributed	Capital	Revaluation	Exchange	Retained	Total
	premium		redemption		fluctuation		
	account	surplus	reserve	reserve	reserve	profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2001	175,861	56,471	23	33,789	(6,049)	445,573	705,668
Arising on repurchase of shares	(778)	-	486	-	-	(486)	(778)
Arising on conversion of convertible bonds	2,242	-	-	-	-	-	2,242
Surplus on revaluation of fixed assets	-	-	-	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 2002 dividend	-	-	-	-	-	(10,160)	(10,160)
	<u>177,325</u>	<u>56,471</u>	<u>509</u>	<u>56,454</u>	<u>(7,337)</u>	<u>471,767</u>	<u>755,189</u>
At 30 September 2002 and at 1 October 2002	177,325	56,471	509	56,454	(6,651)	465,146	749,254
Exchange adjustment on translation of the financial statements of a foreign subsidiary	-	-	-	-	(686)	-	(686)
Net profit for the year	-	-	-	-	-	16,781	16,781
Proposed final 2003 dividend	-	-	-	-	-	(10,160)	(10,160)
	<u>177,325</u>	<u>56,471</u>	<u>509</u>	<u>56,454</u>	<u>(7,337)</u>	<u>471,767</u>	<u>755,189</u>
Reserves retained by:							
Company and subsidiaries	177,325	56,471	509	56,454	(7,337)	479,746	763,168
Jointly-controlled entity	-	-	-	-	-	(7,979)	(7,979)
	<u>177,325</u>	<u>56,471</u>	<u>509</u>	<u>56,454</u>	<u>(7,337)</u>	<u>471,767</u>	<u>755,189</u>
Company and subsidiaries	177,325	56,471	509	56,454	(6,651)	473,488	757,596
Jointly-controlled entity	-	-	-	-	-	(8,342)	(8,342)
	<u>177,325</u>	<u>56,471</u>	<u>509</u>	<u>56,454</u>	<u>(6,651)</u>	<u>465,146</u>	<u>749,254</u>

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## 28. 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 2001	175,861	118,377	23	262,505	556,766
Arising on repurchase of shares	(778)	-	486	(486)	(778)
Arising on conversion of convertible bonds	2,242	-	-	-	2,242
Net loss for the year	-	-	-	(19,628)	(19,628)
Proposed final 2002 dividend	-	-	-	(10,160)	(10,160)
At 30 September 2002 and at 1 October 2002	177,325	118,377	509	232,231	528,442
Net loss for the year	-	-	-	(7,781)	(7,781)
Proposed final 2003 dividend	-	-	-	(10,160)	(10,160)
<b>At 30 September 2003</b>	<b>177,325</b>	<b>118,377</b>	<b>509</b>	<b>214,290</b>	<b>510,501</b>

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

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## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Adoption of SSAP 15 (Revised)

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

In addition, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 September 2002 has been adjusted to remove trust receipt loans amounting to HK\$1,343,000, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

### (b) Major non-cash transaction

In the prior year, deposits for the acquisition of fixed assets of HK\$80,582,000 were utilised as part of the consideration paid for the purchases of fixed assets.

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## 30. 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 two years.

At 30 September 2003, the Group had total future minimum lease receivables under the non-cancellable operating lease with its tenant falling due as follows:

	<b>2003</b> <b>HK\$'000</b>	<b>Group</b> 2002 HK\$'000
Within one year	<b>217</b>	269
In the second to fifth years, inclusive	<b>77</b>	179
	<b>294</b>	448

### (b) As lessee

The Company 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 two years.

At 30 September 2003, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Within one year	<b>226</b>	63	<b>226</b>	–
In the second to fifth years, inclusive	<b>57</b>	–	<b>57</b>	–
	<b>283</b>	63	<b>283</b>	–

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## 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following contracted commitments at the balance sheet date:

	<b>2003</b> <b>HK\$'000</b>	<b>Group</b> 2002 HK\$'000
Acquisition of fixed assets and construction works	<b>574</b>	5,917
Capital contributions to wholly-owned subsidiaries established in Mainland China	<b>6,937</b>	14,937
	<b>7,511</b>	20,854

The Company did not have any significant commitments at the balance sheet date (2002: Nil).

## 32. CONTINGENT LIABILITIES

	<b>Group</b>		<b>Company</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to subsidiaries	-	-	<b>71,000</b>	71,000

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\$13,562,000 (2002: HK\$12,324,000).

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## 33. RELATED PARTY TRANSACTIONS

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

- (a) The Group sold finished goods amounting to HK\$6,176,000 (2002: HK\$6,524,000) to a company in which the spouse of Ms. Wong Choi Kam (a director of the Company), is a director and controlling shareholder.

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

- (b) The Group's bank loans amounting to HK\$44,545,000 (2002: HK\$112,164,000) were secured by the leasehold land and buildings of a related company and 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 (an executive director of the Company) 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.

## 34. COMPARATIVE AMOUNTS

As further explained in notes 2 and 15 to the financial statements, due to the adoption of new and revised SSAP and the reclassification during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 January 2004.