

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A  
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 For the fiscal year ended October 31, 1998

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 (No Fee Required) For the transition period from

----- to -----

Commission file number: 0-11254

COPYTELE, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Delaware

11-2622630

-----  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

900 Walt Whitman Road  
Huntington Station, NY 11746  
(516) 549-5900

-----  
(Address, Including Zip Code, and Telephone Number, Including Area Code, of  
Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$.01 par value

-----  
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statement  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K .

Aggregate market value of the voting stock (which consists solely of shares of  
Common Stock) held by non-affiliates of the registrant as of January 22, 1999,  
computed by reference to the closing sale price of the registrant's Common Stock  
on the NASDAQ National Market System on such date (\$1.91): \$95,593,898.

Indicate by check mark whether the registrant has filed all documents and  
reports required to be filed by Section 12, 13 or 15(d) of the Securities  
Exchange Act of 1934 subsequent to the distribution of securities under a plan  
confirmed by a court. Yes  No

On January 22, 1999, the registrant had outstanding 58,111,176 shares of Common  
Stock, par value \$.01 per share, which is the registrant's only class of common  
stock.

DOCUMENTS INCORPORATED BY REFERENCE:  
NONE

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This amendment is to file exhibit 99.1 - Financial Statements of  
Shanghai CopyTele Electronics Co., Ltd.

PART IV

- Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.
- (a) (1) (2) Financial Statement Schedules
- See accompanying "Index to Financial Statements".
- (a) (3) Executive Compensation Plans and Arrangements
- Stock Option Plan (1987) (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1987).
- Amendment to Stock Option Plan (1987) (filed as Exhibit 10.69 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1990).
- CopyTele, Inc. 1993 Stock Option Plan (filed as Annex A to the Company's Proxy Statement dated June 10, 1993).
- Amendment to CopyTele, Inc. 1993 Stock Option Plan (filed as Exhibit 4(d) to the Company's Form S-8 dated September 6, 1995).
- Amendment to CopyTele, Inc. 1993 Stock Option Plan (filed as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1996).
- (b) Reports on Form 8-K
- No current report on Form 8-K was filed for the Company during the fourth quarter of its fiscal year ended October 31, 1998.
- (c) Exhibits
- |     |      |   |
|-----|------|---|
| (a) | 3.1  | Certificate of Incorporation, as amended.   |
| (b) | 3.2  | By-laws, as amended and restated.   |
|     | 3.3  | Amendment to By-laws.   |
| (c) | 10.1 | Stock Option Plan, adopted on April 1, 1987 and approved by shareholders on May 27, 1987.   |
| (d) | 10.2 | Amendment to Stock Option Plan, adopted on March 12, 1990 and approved by shareholders on May 24, 1990.   |
| (e) | 10.3 | CopyTele, Inc. 1993 Stock Option Plan, adopted on April 28, 1993 and approved by shareholders on July 14, 1993.   |
| (f) | 10.4 | Joint Venture Contract, dated as of March 28, 1995, by and between Shanghai Electronic Components Corp. and CopyTele, Inc.  |
| (f) | 10.5 | Technology License Agreement, dated as of March 28, 1995, by and between Shanghai CopyTele Electronics Co., Ltd. and CopyTele, Inc.   |
| (g) | 10.6 | Amendment No. 1 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 3, 1995 and approved by shareholders on July 19, 1995.   |
| (h) | 10.7 | Assignment Agreement, dated as of July 10, 1995, by and among Shanghai Electronic Components Corp., Shanghai International Trade and Investment Developing Corp. and CopyTele, Inc. |

- (i) 10.8 Amendment No. 2 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 10, 1996 and approved by shareholders on July 24, 1996.
  - (j) 10.9 Contract Granting Land-Use Rights, dated October 11, 1995, between the Land Administration Bureau Songjiang County and Shanghai CopyTele Electronics Co., Ltd.
  - 21 List of Significant Subsidiaries.
  - 23.1 Consent of Arthur Andersen LLP.
  - 27 Financial Data Schedule.
  - (k) 99.1 Financial Statements of Shanghai CopyTele Electronics Co., Ltd.
- 
- (a) Incorporated by reference to Form 10-Q for the fiscal quarter ended July 31, 1992 and to Form 10-Q for the fiscal quarter ended July 31, 1997.
  - (b) Incorporated by reference to Post-Effective Amendment No.1 to Form S-8 (Registration No.33-49402) dated December 8, 1993.
  - (c) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1987.
  - (d) Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1990.
  - (e) Incorporated by reference to Proxy Statement dated June 10, 1993.
  - (f) Incorporated by reference to Form 8-K dated March 28, 1995.
  - (g) Incorporated by reference to Form S-8 (Registration No. 33-62381) dated September 6, 1995.
  - (h) Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1995.
  - (i) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1996.
  - (j) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1997.
  - (k) Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1998.

SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COPYTELE, INC.

By: /s/ Denis A. Krusos

-----  
 Denis A. Krusos  
 Chairman of the Board and  
 Chief Executive Officer

March 30, 1999

EXHIBIT INDEX

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Ref.	Exhibit Number	Description
-----	-----	-----
(a)	3.1	Certificate of Incorporation, as amended.
(b)	3.2	By-laws, as amended and restated.
	3.3	Amendment to By-Laws.
(c)	10.1	Stock Option Plan, adopted on April 1, 1987 and approved by shareholders on May 27, 1987.
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(k)		Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1998.

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INDEX TO FINANCIAL STATEMENTS  
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OCTOBER 31, 1998  
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Statements of Results of Operations for each of the three years ended October 31, 1998		F-3
Statements of Cash Flows for each of the three years ended October 31, 1998		F-4 - F-5
Statements of Owners' Equity for each of the three years ended October 31, 1998		F-6
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Information required by schedules called for under Regulation S-X is either not applicable or is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
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To Shanghai CopyTele Electronics Co., Ltd.:

We have audited the accompanying balance sheets of Shanghai CopyTele Electronics Co., Ltd. (established in the People's Republic of China) as of October 31, 1998 and 1997, and the related statements of operations, cash flows and owners' equity for each of the three years ended October 31, 1998. These financial statements are the responsibility of the management of Shanghai CopyTele Electronics Co., Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Without qualification to the above opinion, we bring the readers attention to the matters set out at Notes 1, 3 and 8 to the financial statements. The Company continues to have negative current working capital and is incurring losses from its operations. The Company is taking action to improve its liquidity and believes that it has sufficient resources to continue in operation. Nevertheless, the Company remains heavily dependent upon its principal customer and major shareholder, CopyTele, Inc., for future sales and profitability. Inventories have been stated at cost in the financial statements, on the assumption that gross margins on sales to CopyTele, Inc. will improve.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shanghai CopyTele Electronics Co., Ltd. as of October 31, 1998 and 1997, and the results of its operations, cash flows and the changes in its owners' equity for each of the three years ended October 31, 1998 in conformity with generally accepted accounting principles in the United States of America.

Shanghai J.W. Associated  
CERTIFIED PUBLIC ACCOUNTANTS

Shanghai, PRC

## Shanghai CopyTele Electronics Co., Ltd.

## BALANCE SHEETS

(Amounts expressed in United States Dollars)

<TABLE>  
<CAPTION>

	Note	October 31, 1998	October 31, 1997
ASSETS			
<S>	<C>	<C>	<C>
CURRENT ASSETS:			
Cash on hand and at banks		51,760	135,890
Due from CopyTele, Inc.	8	661,592	-
Inventories	3	3,568,202	4,830,461
Other current assets		68,581	31,988
		-----	-----
Total Current assets		4,350,135	4,998,339
PROPERTY, PLANT AND EQUIPMENT, net	4	1,812,310	1,897,832
LAND USE RIGHT, net	5	293,273	299,337
		-----	-----
TOTAL ASSETS		6,455,718	7,195,508
		=====	=====
LIABILITIES AND OWNERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans	6	999,316	500,012
Accounts payable		221,459	504,269
Due to CopyTele, Inc.	8	3,916,628	4,303,652
Other current liabilities		116,593	-
		-----	-----
Total current liabilities		5,253,996	5,307,933
		-----	-----
OWNERS' EQUITY			
Paid-in capital	1	3,500,000	3,500,000
Accumulated deficit		(2,298,278)	(1,612,425)
		-----	-----
Total Owners' Equity		1,201,722	1,887,575
		-----	-----
TOTAL LIABILITIES AND OWNERS' EQUITY		6,455,718	7,195,508
		=====	=====

&lt;/TABLE&gt;

The accompanying notes are an integral part of these balance sheets.

## Shanghai CopyTele Electronics Co., Ltd.

## STATEMENTS OF OPERATIONS

(Amounts expressed in United States Dollars)

<TABLE>  
<CAPTION>

	Note	For the years ended October 31,		
		1998	1997	1996
<S> SALES	<C> 8	<C> -	<C> -	<C> -
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		(631,101)	(594,375)	(771,984)
Operating loss		(631,101)	(594,375)	(771,984)
OTHER OPERATING INCOME (EXPENSES)				
Interest (expenses) income, net		(56,117)	(19,870)	13,892
Foreign exchange gain (loss), net		169	5,002	(2,144)
Other, net		1,196	(559)	-
Loss before taxation		(685,853)	(609,802)	(760,236)
TAXATION	7	-	-	-
NET LOSS		(685,853)	(609,802)	(760,236)
ACCUMULATED DEFICITS, beginning of year		(1,612,425)	(1,002,623)	(242,387)
ACCUMULATED DEFICITS, end of year		(2,298,278)	(1,612,425)	(1,002,623)

</TABLE>

The accompanying notes are an integral part of these statements.

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Shanghai CopyTele Electronics Co., Ltd.

STATEMENTS OF CASH FLOWS

(Amounts expressed in United States Dollars)

<TABLE>  
<CAPTION>

	For the years ended October 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Cash received from sales of goods	1,111,118	455,375	-
Interest received	2,124	6,468	13,892
Interest paid	(58,241)	(26,338)	-
Payment to suppliers, employees and others	(1,553,313)	(809,641)	(618,378)
Net cash used in operating activities	(498,312)	(374,136)	(604,486)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for purchases of property, plant and equipment and other assets	(85,122)	(991,839)	(1,074,501)
Net cash used in investing activities	(85,122)	(991,839)	(1,074,501)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contribution from the joint venture partners (Note (a))	-	-	1,960,000

Proceeds of short-term bank loans	499,304	500,012	-
Net cash provided by financing activities			1,960,000
Net DEcrease in cash and cash equivalents	(84,130)	(865,963)	281,013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	135,890	1,001,853	720,840
CASH AND CASH EQUIVALENTS AT END OF YEAR	51,760	135,890	1,001,853

</TABLE>

The accompanying notes are an integral part of these statements.

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Shanghai CopyTele Electronics Co., Ltd.

STATEMENTS OF CASH FLOWS (continued)

(Amounts expressed in United States Dollars)

<TABLE>  
<CAPTION>

	For the years ended October 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
RECONCILIATIONS OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
NET LOSS	(685,853)	(609,802)	(760,236)
Depreciation and amortization	176,708	106,143	510,650
Interest income	(2,124)	(6,468)	(13,892)
Interest expenses	58,241	26,338	-
Decrease (increase) in inventories	1,262,259	(4,830,407)	(54)
(Increase) decrease in due from CopyTele, Inc. and other current assets	(698,185)	212,127	(400,079)
(Decrease) increase in accounts payable, due to CopyTele, Inc. and other current liabilities	(553,241)	4,747,803	45,233
Interest received	2,124	6,468	13,892
Interest paid	(58,241)	(26,338)	-
Net cash used in operating activities	(498,312)	(374,136)	(604,486)

</TABLE>

Supplemental Cash Flow Information:

(a) Non-cash Financing Activities:

Capital contribution from CopyTele, Inc. included USD700,000 in the form of technical know-how, of which USD210,000 was contributed during the year ended October 31, 1995 and USD490,000 was contributed during the year ended October 31, 1996.

The accompanying notes are an integral part of these statements.

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Shanghai CopyTele Electronics Co., Ltd.

STATEMENTS OF OWNERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 1998, 1997 AND 1996

(Amounts expressed in United States Dollars)

<TABLE>  
<CAPTION>

	Paid-in capital	Accumulated deficits	Total
<S>	<C>	<C>	<C>
BALANCE, November 1, 1995	1,050,000	(242,387)	807,613
Capital contribution	2,450,000	-	2,450,000
Net loss for the year	-	(760,236)	(760,236)
BALANCE, October 31, 1996	3,500,000	(1,002,623)	2,497,377
Net loss for the year	-	(609,802)	(609,802)
BALANCE, October 31, 1997	3,500,000	(1,612,425)	1,887,575
Net loss for the year	-	(685,853)	(685,853)
BALANCE, October 31, 1998	3,500,000	(2,298,278)	1,201,722

</TABLE>

The accompanying notes are an integral part of these statements.

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Shanghai CopyTele Electronics Co., Ltd.

NOTES TO FINANCIAL STATEMENTS

(Amounts expressed in United States Dollars ("USD") unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Shanghai CopyTele Electronics Co., Ltd. (the "Company") is an equity joint venture registered in the People's Republic of China ("PRC") on May 18, 1995 with an operating period of twenty years. The Company's scope of business consists of the manufacture and sale of multifunctional telecommunication products. The Company commenced its commercial production in February 1997.

The registered capital of the Company is USD 3.5 million. As of October 31, 1998, the joint venture partners and their respective capital contributions to the Company are as follows:

<TABLE>  
<CAPTION>

Joint Venture Partner	Country of Incorporation	Percentage of Ownership	Capital Contributed
<S>	<C>	<C>	<C>
			USD
CopyTele, Inc.	United States of America	55%	1,925,000
Shanghai Electronic Components Corporation	PRC	35%	1,225,000
Shanghai International Trade and Investment Developing Corp.	PRC	10%	350,000
Total		100%	3,500,000

</TABLE>

Shanghai Electronic Components Corporation has assigned a 30% interest to Shanghai Instrumentation and Electronics Holding Group Company and a 5% interest to Shanghai International Trade and Investment Developing Corp.

As of October 31, 1998, the Company had net current liabilities of approximately USD904,000, and was incurring losses from its operations. The current working capital includes approximately USD4,350,000 (inclusive of approximately USD3,568,000 of inventories) of current assets and approximately USD5,254,000 (inclusive of approximately USD3,916,000 due to CopyTele, Inc.) of current liabilities. The Company believes that these resources will be sufficient to continue its operations, as presently conducted, after giving effect to anticipated reductions in the Company's requirements for component purchases and reductions in administrative and support personnel, if necessary.

The Company is seeking to improve its liquidity through the sale of products, deferment of repayment of amounts due to CopyTele, Inc. and additional borrowing of bank loans, although there can be no assurance that any of these plans can be implemented at terms that will be favorable to the Company.

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2. PRINCIPAL ACCOUNTING POLICIES

The financial statements were prepared in accordance with generally accepted accounting principles in United States of America ("US GAAP"). This basis of accounting differs from that used in the statutory accounts prepared in accordance with the accounting principles and the relevant financial regulations applicable to joint venture enterprises as established by the Ministry of Finance of China ("PRC GAAP").

The principal adjustment made to conform the statutory accounts of the Company to US GAAP were:

Charge the expenses and exchange loss incurred during the pre-operating period, which were capitalized as non-current assets in its statutory accounts, to the statements of operations.

Write off the technical know-how contributed by CopyTele, Inc. as paid-in capital, which was capitalized as intangible assets in its statutory accounts, to the statements of operations.

The accompanying financial statements of the Company were prepared in conformity with US GAAP as if those standards had been consistently applied throughout the years. The following accounting policies were adopted in the preparation of these financial statements:

(a) Inventories

Inventories are stated at the lower of cost, calculated using the weighted-average method, and net realizable value.

(b) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the property, plant and equipment, after taking into account an estimated residual value of 10% of cost. The estimated useful lives are as follows:

Buildings	18 years
Machinery and equipment	10 years
Motor vehicles	5 years
Office equipment	5 years

Construction-in-progress represents buildings under construction and is stated at cost.

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(c) Land Use Right

Land use right is stated at cost less accumulated amortization. Amortization of land use right is provided using the straight-line method over 50 years

(d) Foreign Currency Translations and Balances

The Company maintains its books and accounting records in Renminbi ("RMB"),

which is not a freely convertible currency. Transactions in foreign currencies are translated into RMB at the exchange rates prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates prevailing at that date. Exchange differences are included in the determination of income.

The management determines USD is the functional currency. The accounts of the Company are translated into USD as if the Company's books of record had been initially recorded in USD. To accomplish that result, all non-monetary accounts are translated at historical exchange rates between USD and RMB.

(e) Sales Recognition

Sales represent the invoiced value of goods, net of discounts, returns and surtaxes. Sales are recognized upon passing of title to customers.

(f) Taxation

The Company provides for Enterprise Income Tax ("EIT") on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for EIT purposes.

Other taxes are provided in accordance with the prevailing PRC tax regulations.

Deferred taxation is provided under the liability method whereby deferred taxation is recognized for temporary differences using enacted tax rates in effect in the years in which the differences are expected to reverse. Temporary differences are the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(g) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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3. INVENTORIES

	1998	1997
Raw materials	2,718,262	4,297,043
Work-in-progress	681,982	430,649
Finished goods	167,958	102,769
	-----	-----
	3,568,202	4,830,461
	=====	=====

As discussed in Note 8, the Company relies very heavily on CopyTele, Inc. for its purchase of the Company's products. Therefore, the ultimate realizability of the Company's inventories is dependent on future sale of products to CopyTele, Inc.. During its fiscal year ended October 31, 1998, the Company incurred a gross loss of approximately USD189,000 for its sales to CopyTele, Inc.. Management has recorded the Company's inventories as of October 31, 1998 at cost and a provision to state inventories at their net realizable value has not been made on the basis that sales prices are expected to improve. To date, shipments of the Company's products have been limited. Accordingly, there can be no assurance that the Company will not be required to reduce the selling price of its products below their current carrying value to accomplish certain business strategies, which would require a reduction of such carrying value.

4. PROPERTY, PLANT AND EQUIPMENT

	1998	1997
Buildings	908,101	858,326
Machinery and equipment	951,153	918,794
Motor vehicles	52,971	52,934
Office equipment	184,764	169,560
Construction-in-progress	-	12,253
	-----	-----
	2,096,989	2,011,867
Less: Accumulated depreciation	(284,679)	(114,035)

Net	----- 1,812,310 =====	----- 1,897,832 =====
-----	-----------------------------	-----------------------------

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5. LAND USE RIGHT

	----- 1998 -----	----- 1997 -----
Cost	309,473	309,473
Accumulated amortization	(16,200)	(10,136)
Net	----- 293,273 =====	----- 299,337 =====

All land in the PRC is owned by the state or is subject to collective ownership and neither individuals nor legal entities may own land. The Company acquired the right to use the land on which its factory is located for USD 309,473.

6. SHORT-TERM BANK LOANS

Short-term bank loans bore interest rates ranging from 7.69% to 8.64% per annum in 1998 and at 6.09% per annum in 1997.

As of October 31, 1998 and 1997, all of the short-term bank loans were secured by the Company's buildings and land use right.

7. TAXATION

(a) Value-Added Tax ("VAT")

The Company is subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of semi-finished products or raw materials etc. can be used to offset the VAT on sales to determine the net VAT payable.

As the Company was established after January 1, 1994, its exports are "zero-rated" for VAT purpose. Accordingly, subject to the changes described below, the Company charges no VAT on its exports and is entitled to claim a refund for the input tax incurred in respect of these exports.

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Pursuant to subsequent tax authority circulars, with effect from July 1, 1995, the Company may no longer recover fully the input tax of its exports. An amount equivalent to "17% minus the applicable refund rate" times the FOB value of the exports will be noncreditable and nonrefundable. As the Company has a "bonded" arrangement with the customs authority and enjoys duty-exemption on its imported materials to be used for producing its exports, the amount of noncreditable and nonrefundable input tax will be "17% minus the applicable refund rate" times "the FOB value of the exports minus the (composite assessable) value of the duty-exempt imported materials matching the exports". This noncreditable and nonrefundable input tax shall be absorbed by the Company as part of the costs of exports. The applicable refund rate is currently 11%.

(b) Enterprise Income Tax ("EIT")

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the Company is entitled to full exemption from EIT for the first two years and a 50% reduction for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous years (at most five years).

The tax effects of temporary differences between financial and taxable income that give rise to deferred tax assets are principally related to the following:

	----- 1998 -----	----- 1997 -----
Net operating loss carryforward	500,218	306,260
Income tax basis in excess of		

financial basis of		
- Pre-operating expenses	69,971	85,121
- Technical know-how	190,902	214,042
	-----	-----
Total gross deferred tax assets	761,091	605,423
Less valuation allowance	(761,091)	(605,423)
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Net deferred tax assets	-	-
	=====	=====

The valuation allowance refers to the portion of the deferred tax assets that are not currently realizable. The realization of these benefits depends upon the Company's income in future years.

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#### 8. RELATED PARTY TRANSACTIONS

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The Company relies very heavily on CopyTele, Inc. for its purchase of the Company's products, its supplies to the Company of raw materials and components required for production. For the years ended October 31, 1998 and 1997, sales to CopyTele, Inc. accounted for 100 per cent of the Company's net sales. The Company purchases most of the required raw materials and imported components through CopyTele, Inc. For the years ended October 31, 1998 and 1997, purchases of materials and components through CopyTele, Inc. amounted to approximately USD 168,000 and USD 4,480,000 respectively.

The amounts due from/to CopyTele, Inc. arose mainly from the above transactions, are interest-free and have no fixed repayment terms.

#### 9. COMMITMENTS

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As of October 31, 1998, the Company had no material rental, capital or other purchase commitments.

#### 10. EMPLOYEES' PENSION PLAN

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The Company contributes annually to a government-sponsored pension scheme, an amount equivalent to 25.5% of the total basic salary of its employees. This government sponsored pension scheme will be responsible for payment of the pension liabilities relating to the retirees of the Company. Pension cost, which approximated USD 37,000, USD 18,000 and USD 5,000 for the years ended October 31, 1998, 1997 and 1996 respectively, has been accrued and funded on a current basis.

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