

Notes to the Financial Statements

For the year ended 31 March 2002

I. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 9 April 2001 in the Cayman Islands under the Companies Law of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 November 2001.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 12 September 2001. Details of the Group Reorganisation are set out in the prospectus issued by the Company on 30 October 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared with the principle of the merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

The consolidated income statement and the consolidated cash flow statement for the year ended 31 March 2001 include the results and the cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the year under review, or since the dates of incorporation of the companies where this is a shorter period.

The consolidated balance sheet of the Group as at 31 March 2001 has been prepared to present the state of affairs of the companies comprising the Group as if the current group structure had been in existence as at the balance sheet date.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 38.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (CONTINUED)

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts and disclosures reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 March 2001 have been amended so that they are presented on a consistent basis.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively. The effect of this change has been to increase shareholders' funds of the Group at 1 April 2000 and 31 March 2001 by HK\$11,000,000 and HK\$30,000,000 respectively.

Leases

In the current year, the Group has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease arrangements as set out in note 33 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative disclosures have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, leasehold land and buildings, and investment in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 March 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income arising from repairs, installation, maintenance, connection and consultancy are recognised when the relevant services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Interest income is accrued on a time basis with reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation, amortisation and any identified impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the leasehold property revaluation reserve except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expenses, in which case the increase is credited to income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of land and buildings is charged as an expense to the extent that it exceeds the surplus, if any, held in the leasehold property revaluation reserve relating to previous revaluation of that particular property. On the subsequent sale of land and buildings, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation and amortisation are provided to write off the cost or valuation of items of property and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 40 years
Leasehold improvements	20%
Furniture and fixtures	10% – 20%
Office equipment	10% – 20%
Computer equipment	33 $\frac{1}{3}$ %
Motor vehicles	20%

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31 March 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories, representing merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Assets under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income statement as expense over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

For the year ended 31 March 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's mandatory provident fund scheme.

4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Sale of goods	677,400	690,389
Repair service	7,161	1,082
Installation service	4,584	4,463
Maintenance service	9,079	9,832
Connection service	22,912	27,866
Consultancy service	3,059	3,626
Rental income	2,522	2,286
	726,717	739,544

Notes to the Financial Statements

For the year ended 31 March 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions - sales of mobile phones, sales of office telephone systems, connection services and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 March 2002

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Other activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Revenue</i>							
External sales	639,136	38,264	22,912	2,522	23,883	–	726,717
Inter-segment sales	–	4,723	–	2,542	–	(7,265)	–
	<u>639,136</u>	<u>42,987</u>	<u>22,912</u>	<u>5,064</u>	<u>23,883</u>	<u>(7,265)</u>	<u>726,717</u>
Total revenue	<u>639,136</u>	<u>42,987</u>	<u>22,912</u>	<u>5,064</u>	<u>23,883</u>	<u>(7,265)</u>	<u>726,717</u>
Inter-segment sales are charged at prevailing market rates.							
<i>Result</i>							
Segment result	<u>11,553</u>	<u>1,233</u>	<u>2,566</u>	<u>1,705</u>	<u>5,680</u>	<u>–</u>	22,737
Gain on disposal of an investment property							2,911
Interest income from bank deposits							439
Unallocated other revenue							<u>54</u>
Profit from operations							26,141
Finance costs							<u>(91)</u>
Profit before taxation							26,050
Taxation							<u>(3,668)</u>
Profit before minority interests							22,382
Minority interests							<u>(1,470)</u>
Net profit for the year							<u>20,912</u>

Notes to the Financial Statements

For the year ended 31 March 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

At 31 March 2002

Balance sheet

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	80,601	38,682	4,307	33,234	17,191	174,015
Unallocated corporate assets						58,707
Consolidated total assets						<u>232,722</u>
Liabilities						
Segment liabilities	24,757	6,265	–	232	14	31,268
Unallocated corporate liabilities						2,397
Consolidated total liabilities						<u>33,665</u>

Other information

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	3,137	118	–	17	17	3,289
Depreciation and amortisation	1,538	623	–	529	40	2,730

Notes to the Financial Statements

For the year ended 31 March 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

For the year ended 31 March 2001

	Sales of mobile phones HK\$'000	Sales of office telephone systems HK\$'000	Connection services HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue							
External sales	648,170	42,219	27,866	2,286	19,003	–	739,544
Inter-segment sales	–	8,981	–	2,874	–	(11,855)	–
Total revenue	<u>648,170</u>	<u>51,200</u>	<u>27,866</u>	<u>5,160</u>	<u>19,003</u>	<u>(11,855)</u>	<u>739,544</u>

Inter-segment sales are charged at prevailing market rates.

Result							
Segment result	<u>18,250</u>	<u>5,841</u>	<u>14,332</u>	<u>1,868</u>	<u>4,294</u>	<u>–</u>	44,585
Interest income from bank deposits							725
Unallocated other revenue							<u>597</u>
Profit from operations							45,907
Finance costs							<u>(213)</u>
Profit before taxation							45,694
Taxation							<u>(7,599)</u>
Profit before minority interests							38,095
Minority interests							<u>(3,770)</u>
Net profit for the year							<u>34,325</u>

Notes to the Financial Statements

For the year ended 31 March 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

At 31 March 2001

Balance sheet

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	31,935	47,002	1,711	42,711	10,176	133,535
Unallocated corporate assets						37,160
Consolidated total assets						170,695
Liabilities						
Segment liabilities	8,293	10,017	2,113	270	91	20,784
Unallocated corporate liabilities						11,226
Consolidated total liabilities						32,010

Other information

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	1,576	229	–	90	10	1,905
Depreciation and amortisation	1,299	713	–	461	38	2,511

Notes to the Financial Statements

For the year ended 31 March 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments

The Group's operations are located in Hong Kong and Singapore.

The Group's sales of mobile phones and connection services are carried out in Hong Kong. Sales of office telephone systems are carried out in Hong Kong and Singapore.

The following table provides an analysis of the Group's sales by geographical market:

	Revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	717,556	718,839	23,035	43,742
Singapore	9,161	20,705	(298)	843
	<u>726,717</u>	<u>739,544</u>	<u>22,737</u>	<u>44,585</u>
Gain on disposal of an investment property			2,911	–
Interest income from bank deposits			439	725
Unallocated other revenue			54	597
Profit from operations			<u>26,141</u>	<u>45,907</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	225,179	161,159	3,248	1,819
Singapore	7,543	9,536	41	86
	<u>232,722</u>	<u>170,695</u>	<u>3,289</u>	<u>1,905</u>

Notes to the Financial Statements

For the year ended 31 March 2002

6. OTHER REVENUE

	2002 HK\$'000	2001 HK\$'000
Interest income from bank deposits	439	725
Sundry income	54	597
	493	1,322

7. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	687	499
Depreciation and amortisation		
– owned assets	2,716	2,437
– assets under hire purchase contracts	14	74
Loss on disposal of property, plant and equipment	106	–
Rental payments in respect of properties under operating leases	5,262	2,266
Staff costs inclusive of directors' remuneration	50,552	39,405
and after crediting:		
Gross rental income from properties under operating leases after outgoings of HK\$60,000 (2001: HK\$176,000)	2,462	2,110

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank borrowings wholly repayable within five years	78	165
Interest on obligations under hire purchase contracts	13	48
	91	213

Notes to the Financial Statements

For the year ended 31 March 2002

9. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees	–	195
Other emoluments to executive directors:		
Salaries and other benefits	4,131	2,677
Bonus	1,565	1,047
Contribution to retirement benefit schemes	56	48
	5,752	3,772
Total directors' emoluments	5,752	3,967

The remunerations of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	9	7
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,500,001 to HK\$3,000,000	–	1
	11	8

No remunerations were paid or payable to independent non-executive directors of the Company in both years.

There was no compensation for loss of office paid to directors.

Notes to the Financial Statements

For the year ended 31 March 2002

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included three directors (2001: two directors), details of whose emoluments are included in the amounts disclosed in note 9 above. The emoluments of the remaining highest paid employees, other than directors of the Company, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	369	2,361
Bonus	1,126	73
Contribution to retirement benefit schemes	24	–
	<u>1,519</u>	<u>2,434</u>

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	–	1

11. TAXATION

	2002 HK\$'000	2001 HK\$'000
The tax charge attributable to the Company and its subsidiaries comprises:		
Hong Kong Profits Tax		
– current year	4,203	7,409
– (over)underprovision in prior years	(535)	89
	<u>3,668</u>	<u>7,498</u>
Singapore Income Tax	–	101
	<u>3,668</u>	<u>7,599</u>

Notes to the Financial Statements

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11. TAXATION (CONTINUED)

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation arising in Singapore is calculated at the rates prevailing in the country.

There is no significant unprovided deferred taxation as at 31 March 2001 and 2002 for the Group and the Company.

Deferred tax has not been provided on the revaluation increase arising on the revaluation of investment properties and leasehold land and buildings as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation increase does not constitute a timing difference for tax purposes.

12. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. During the year, the following subsidiaries of the Group paid dividends, to their then shareholders prior to the Group Reorganisation:

	2002 HK\$'000	2001 HK\$'000
Generalvestor (H.K.) Limited	30,000	5,000
Hong Kong Communications Equipment Company Limited	-	41,000
Hong Kong Communications Equipment Distribution Company Limited	-	1,270
	<u>30,000</u>	<u>47,270</u>

The directors recommend the payment of a dividend of HK2 cents per share to the shareholders of the Company whose names appear on the register of members on 13 August 2002.

13. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$20,912,000 (2001: HK\$34,325,000) and on the weighted average number of 384,342,466 ordinary shares (2001: 318,829,600 ordinary shares) in issue and issuable during the year on the assumption that the issue of shares of the Company upon the reorganisation and the capitalisation issue, other than those attributable to the acquisition of minority interests in certain subsidiaries, and details of which are set out in the prospectus issued by the Company on 30 October 2001, had been taken place on 1 April 1998.

No diluted earnings per share has been presented as the exercise price of the Company's options was higher than the average market price of shares for 2002.

Notes to the Financial Statements

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14. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1 April 2001	41,454
Transfer from property, plant and equipment	7,044
Transfer to leasehold land and buildings	(3,908)
Disposals	(13,300)
Surplus arising on revaluation	1,470
	<u> </u>
At 31 March 2002	<u><u>32,760</u></u>

The Group's investment properties comprise:

	2002	2001
	HK\$'000	HK\$'000
Properties in Hong Kong		
– Long lease	22,800	17,734
– Medium-term lease	9,960	23,720
	<u>32,760</u>	<u>41,454</u>

All of the investment properties of the Group were revalued at 31 March 2002 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, on an open market value existing use basis. The resulting increase arising on revaluation, which amounted to HK\$1,470,000, has been credited to the investment property revaluation reserve (note 28).

All the investment properties of the Group are rented out under operating leases.

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements, land and buildings	Office equipment, leasehold, and furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2001	32,116	14,872	2,423	1,731	51,142
Currency realignment	(7)	(6)	(4)	(2)	(19)
Additions	–	2,294	995	–	3,289
Disposals	(1,827)	(1)	–	–	(1,828)
Transfer from investment properties	3,908	–	–	–	3,908
Transfer to investment properties	(9,289)	–	–	–	(9,289)
Surplus arising on revaluation	24,419	–	–	–	24,419
	<u>49,320</u>	<u>17,159</u>	<u>3,414</u>	<u>1,729</u>	<u>71,622</u>
At 31 March 2002					
Comprising:					
At cost	–	17,159	3,414	1,729	22,302
At valuation	49,320	–	–	–	49,320
	<u>49,320</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,320</u>
DEPRECIATION AND AMORTISATION					
At 1 April 2001	5,382	11,475	1,990	1,441	20,288
Currency realignment	(1)	(4)	(4)	(2)	(11)
Provided for the year	592	1,547	471	120	2,730
Eliminated on disposals	(291)	(1)	–	–	(292)
Transfer to investment properties	(2,245)	–	–	–	(2,245)
Eliminated on revaluation	(3,437)	–	–	–	(3,437)
	<u>–</u>	<u>13,017</u>	<u>2,457</u>	<u>1,559</u>	<u>17,033</u>
At 31 March 2002					
NET BOOK VALUES					
At 31 March 2002	<u>49,320</u>	<u>4,142</u>	<u>957</u>	<u>170</u>	<u>54,589</u>
At 31 March 2001	<u>26,734</u>	<u>3,397</u>	<u>433</u>	<u>290</u>	<u>30,854</u>

Notes to the Financial Statements

For the year ended 31 March 2002

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All of the leasehold land and buildings of the Group were revalued at 31 March 2002 by LCH (Asia Pacific) Surveyors Limited, an independent firm of professional property valuer, on an open market value existing use basis. The resulting increase arising on revaluation, which amounted to HK\$27,856,000 has been credited to the leasehold property revaluation reserve (see note 28).

At 31 March 2002, had all the leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of these properties would have been stated at HK\$21,464,000 (2001: HK\$26,734,000).

The Group's leasehold land and buildings comprise:

	2002 HK\$'000	2001 HK\$'000
Properties held under long leases		
–in Hong Kong	45,780	25,490
–overseas	3,540	1,244
	49,320	26,734
The net book value of motor vehicles held under hire purchase contracts	52	66

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	163,654	–
Amounts due from subsidiaries	10,955	–
	174,609	–

Particulars of the subsidiaries at 31 March 2002 are set out in note 38.

Notes to the Financial Statements

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17. INVESTMENT IN SECURITIES

THE GROUP

	Investment securities	
	2002 HK\$'000	2001 HK\$'000
Unlisted investment, at cost	4,000	–

The Group's unlisted investment represents 5% equity interest in BIA Technology Limited, a company incorporated in Hong Kong with the principal activities of trading in telecommunication equipment and engaging in research and development on internet application and mobile products.

18. INVENTORIES

THE GROUP

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Inventories stated at net realisable value	4,754	5,030

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period ranging from 2 weeks to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of trade debtors of HK\$35,214,000 (2001: HK\$33,376,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0-30 days	20,348	28,344
31-60 days	3,335	1,630
61-90 days	2,504	823
91-120 days	859	1,714
Over 120 days	8,168	865
	35,214	33,376

Notes to the Financial Statements

For the year ended 31 March 2002

20. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

Particulars of the amounts due from related companies, are as follows:

Name of related entity	2002	2001	Maximum
	HK\$'000	HK\$'000	amount outstanding during the year HK\$'000
BIA Technology Limited	1,631	–	1,631
BTL System (HK) Limited	–	1	1
HKC Intown Limited	179	190	190
Hong Kong Communications Computer Company Limited	239	181	239
	<u>2,049</u>	<u>372</u>	

Mr. Chan Chung Yee, Hubert and Mr. Chan Chung Yin, Roy, the directors of the Company, have beneficial interests in BIA Technology Limited through their interests in the Company. The directors' interest in other companies are set out in note 37.

The amounts due from related companies were unsecured, interest free and are repayable on demand.

21. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$24,787,000 (2001: HK\$16,987,000) which are included in the Group's creditors and accrued charges are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0-30 days	24,774	15,632
31-60 days	8	–
61-90 days	5	–
91-120 days	–	1,355
	<u>24,787</u>	<u>16,987</u>

Notes to the Financial Statements

For the year ended 31 March 2002

22.AMOUNTS DUE TO DIRECTORS/RELATED COMPANIES

The amounts were unsecured, interest free and were settled during the year.

23.OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under hire purchase contracts				
Within one year	15	90	14	77
More than one year but not exceeding two years	-	15	-	14
	<u>15</u>	<u>105</u>	<u>14</u>	<u>91</u>
Less: future finance charges	(1)	(14)		
Present value of hire purchase contract	<u>14</u>	<u>91</u>		
Less: Amount due for settlement within one year shown under current liabilities			(14)	(77)
Amount due for settlement after one year			<u>-</u>	<u>14</u>

Notes to the Financial Statements

For the year ended 31 March 2002

24. BANK BORROWINGS—SECURED

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank borrowings comprise:		
Bank overdrafts	752	—
Bank loans	462	1,325
	<u>1,214</u>	<u>1,325</u>
Due within one year	843	897
Due in the second year	371	428
	<u>1,214</u>	<u>1,325</u>

25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
On the date of incorporation at HK\$0.1 each	1,000,000	100
Subdivision of shares	9,000,000	—
Increase during the year	1,990,000,000	19,900
At 31 March 2002	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
Issued on the date of incorporation at HK\$0.1 each	1	—
Issued at HK\$0.1 each before subdivision of shares	999,999	—
Subdivision of shares	9,000,000	—
Issue of shares before Group Reorganisation	10,000,000	200
Issue of shares by capitalisation of share premium account	333,000,000	3,330
Issue of shares for placing and public offer	80,000,000	800
At 31 March 2002	<u>433,000,000</u>	<u>4,330</u>

The Company was incorporated on 9 April 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each and 1 share was issued nil paid on 20 April 2001. On 27 July 2001, an aggregate of 999,999 shares of HK\$0.10 were allotted and issued nil paid.

Notes to the Financial Statements

For the year ended 31 March 2002

25.SHARE CAPITAL (CONTINUED)

Pursuant to resolutions in writing of all shareholders of the Company passed on 12 September 2001 and 23 October 2001:

- (a) the then issued and unissued shares having a par value of HK\$0.10 each in the share capital of the Company were sub-divided into 10 shares, and the authorised share capital of the Company was increased to HK\$200,000 by the creation of a further 10,000,000 shares. The Company allotted and issued, credit as fully paid at par of HK\$0.01, an aggregate of 10,000,000 shares to the shareholders, and credited as fully paid at par of HK\$0.01 the 10,000,000 nil paid shares held by the shareholders.
- (b) the transfer to the Company by Mr. Chan Chung Yee, Hubert, Mr. Chan Chung Yin, Roy, Mr. Chan Man Min, Mr. Tsui Hon Wing and Mr. Yeh Yui Fong of 100,000 shares of US\$1 each, in aggregate, being the entire issued share capital in HKC Group Limited, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 10,000,000 new shares, as to 6,774,000 shares to Matrix World Group Limited ("Matrix World"), 2,258,000 shares to Star Global International Limited ("Star Global"), 815,500 shares to Ocean Hope Group Limited ("Ocean Hope"), 64,000 shares to Total Portfolio Limited ("Total Portfolio") and 88,500 shares to Ocean Castle Development Limited ("Ocean Castle"), at the direction of Mr. Chan Chung Yee, Hubert, Mr. Chan Chung Yin, Roy, Mr. Chan Man Min, Mr. Tsui Hon Wing and Mr. Yeh Yui Fong respectively; and (ii) credited as fully paid at par the 10,000,000 nil paid shares held by Matrix World, Star Global, Ocean Hope, Total Portfolio and Ocean Castle.
- (c) the authorised share capital was increased from HK\$200,000 to HK\$20,000,000 by the creation of a further 1,980,000,000 shares.
- (d) conditional on the share premium account of the Company being credited as a result of the placing and public offer of the shares of the Company on 30 October 2001, the directors were authorised to allot and issue a total of 333,000,000 shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 23 October 2001 in proportion to their then existing holding by way of capitalisation of the sum of HK\$3,330,000 standing to the credit of the share premium account of the Company.

On 30 October 2001, by means of placing and public offer, the Company issued a total of 80,000,000 new ordinary shares of HK\$0.01 each at the price of HK\$0.5 per share. The proceeds are used to expand the sales of mobile phones and office telephone systems and to provide additional working capital for the Group.

These shares rank *par passu* with the existing shares in all respects.

The share capital as at 31 March 2001 represented the aggregate amount of nominal values of the combined issued share capital of the companies now comprising the Group prior to the Group Reorganisation.

26.SHARE OPTION SCHEME

At 31 March 2002, there were outstanding share options of 22,400,000 shares granted to certain directors, eligible employees and customers of the Company at the exercise price of HK\$0.38 per share. The exercise period is from 23 May 2002 to 30 June 2003. No share options were exercised during the year.

Notes to the Financial Statements

For the year ended 31 March 2002

27. OTHER RESERVES

	Share premium	Capital reserve	Special reserve	Translation reserve	Retained profits (deficit)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
At 1 April 2000						
– as previously stated	–	–	–	(13)	109,440	109,427
– prior period adjustment (note 2)	–	–	–	–	11,000	11,000
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(13)</u>	<u>120,440</u>	<u>120,427</u>
– as restated	–	–	–	(13)	120,440	120,427
Exchange differences on translation of overseas operations	–	–	–	(28)	–	(28)
Net profit for the year	–	–	–	–	34,325	34,325
Dividends paid	–	–	–	–	(47,270)	(47,270)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(13)</u>	<u>(13)</u>
At 31 March 2001	–	–	–	(41)	107,495	107,454
Exchange differences on translation of overseas operations	–	–	–	(26)	–	(26)
Net profit for the year	–	–	–	–	20,912	20,912
Premium arising from placing and public offer of shares	39,200	–	–	–	–	39,200
Shares issue expense	(8,970)	–	–	–	–	(8,970)
Capitalisation issue	(3,330)	–	–	–	–	(3,330)
Contribution from minority shareholders of subsidiaries waived	–	15,697	–	–	–	15,697
Shares exchange upon Group Reorganisation	–	12,628	–	–	–	12,628
Dividend paid	–	–	–	–	(30,000)	(30,000)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(30,000)</u>	<u>(30,000)</u>
At 31 March 2002	<u>26,900</u>	<u>28,325</u>	<u>–</u>	<u>(67)</u>	<u>98,407</u>	<u>153,565</u>
THE COMPANY						
Premium arising from placing and public offer of shares	39,200	–	–	–	–	39,200
Shares issue expense	(8,970)	–	–	–	–	(8,970)
Capitalisation issue	(3,330)	–	–	–	–	(3,330)
Shares exchange upon Group Reorganisation	–	–	163,453	–	–	163,453
Net loss for the period	–	–	–	–	(184)	(184)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(184)</u>	<u>(184)</u>
At 31 March 2002	<u>26,900</u>	<u>–</u>	<u>163,453</u>	<u>–</u>	<u>(184)</u>	<u>190,169</u>

Notes to the Financial Statements

For the year ended 31 March 2002

27. OTHER RESERVES (CONTINUED)

The special reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued for the acquisition prior to the listing of the Company's shares in 2001.

The capital reserve of the Group represents the contribution from minority shares of the subsidiaries waived, and the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to the same reorganisation.

The Company's reserves available for distribution represent the share premium, special reserve and retained profits. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution to shareholders as at 31 March 2002 amounted to HK\$190,169,000.

28. REVALUATION RESERVES

	Leasehold property revaluation reserve	Investment property revaluation reserve	Total
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
At 1 April 2000	–	16,302	16,302
Revaluation decrease	–	(1,555)	(1,555)
	<hr/>	<hr/>	<hr/>
At 31 March 2001	–	14,747	14,747
Revaluation increase	27,856	1,470	29,326
Released on disposal of an investment property	–	(2,911)	(2,911)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	<u>27,856</u>	<u>13,306</u>	<u>41,162</u>

Notes to the Financial Statements

For the year ended 31 March 2002

29. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	26,050	45,694
Interest income	(439)	(725)
Interest expenses	91	213
Depreciation and amortisation	2,730	2,511
Loss on disposal of property and equipment	106	–
Gain on disposal of an investment property	(2,911)	–
(Increase) decrease in inventories	(17,750)	783
Increase in debtors, deposits and prepayments	(307)	(8,125)
(Increase) decrease in amounts due from related companies	(1,677)	11,574
Decrease in amount due from a director	–	270
Increase in creditors and accrued charges	10,938	6,082
Increase (decrease) in bills payable	20	(3,061)
Increase in amounts due to related companies	–	796
Exchange adjustment	(16)	87
	16,835	56,099

Notes to the Financial Statements

For the year ended 31 March 2002

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Amounts due to directors	Bank borrowings	Obligations		Minority interests
			under hire purchase contracts	Share capital and premium	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2000	–	2,525	144	2,248	10,457
Repayment during the year	–	(1,200)	(53)	–	–
Advance/increase during the year	(33,996)	–	–	9	–
Dividend set off	41,363	–	–	–	–
Share of profits and reserves by minority shareholders of subsidiaries	–	–	–	–	3,770
Balance at 31 March 2001	7,367	1,325	91	2,257	14,227
Advance during the year	15,268	–	–	–	–
Waiver of loan from directors	(9,335)	–	–	–	–
Set off against the proceeds from disposal of investment properties	(13,300)	–	–	–	–
Share of profits by minority shareholders of subsidiaries	–	–	–	–	1,470
Elimination of share capital upon Group Reorganisation	–	–	–	(2,257)	–
Contribution from minority shareholders waived	–	–	–	–	(15,697)
Issue of shares before placing and public offer	–	–	–	200	–
Proceeds from issue of shares for placing and public offer	–	–	–	40,000	–
Expenses incurred in connection with the issue of shares	–	–	–	(8,970)	–
Repayment during the year	–	(863)	(77)	–	–
Balance at 31 March 2002	–	462	14	31,230	–

31. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	51,504	32,851
Bank overdrafts	(752)	–
	50,752	32,851

Notes to the Financial Statements

For the year ended 31 March 2002

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2002, the loans from the directors amounting to HK\$9,335,000, the amounts due to related companies of HK\$1,036,000 and the contributions from the minority shareholders of HK\$15,697,000 were waived and capitalised as capital reserve. In addition, the amounts due to directors amounting to HK\$13,300,000 are set-off by the sale proceeds from disposal of an investment property.

During the year ended 31 March 2001, the amounts due from directors amounting to HK\$33,996,000 were set-off by the dividend, leaving the amounts due to directors of HK\$7,367,000.

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	7,758	5,824
In the second to fifth year inclusive	3,553	4,482
	<u>11,311</u>	<u>10,306</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Group as lessor:

Property rental income earned during the year was HK\$2,522,000 (2001: HK\$2,286,000). The properties held have committed tenants in the range from the next half year to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,305	2,351
In the second to fifth year inclusive	355	858
	<u>1,660</u>	<u>3,209</u>

Notes to the Financial Statements

For the year ended 31 March 2002

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000
Banking facilities to subsidiaries in respect of which guarantees were given	-	-	48,000
Credit facilities from third parties in respect of which guarantees were given to	27,000	27,000	-
	27,000	27,000	48,000

35. PLEDGE OF ASSETS

At 31 March 2002, certain leasehold land and buildings and investment properties with aggregate carrying values of HK\$4,340,000 (2001: HK\$10,856,000) and HK\$7,200,000 (2001: Nil) respectively were pledged to banks to secure banking facilities granted to the Group.

36. RETIREMENT BENEFITS SCHEME

- (i) The subsidiary in Singapore participates in a central provident scheme, whereby the Group is required to contribute to the scheme to fund the retirement benefits of the eligible employees. Contributions made to the scheme are calculated based on 16% of the applicable payroll costs.
- (ii) With effect from 1 December 2000, the subsidiaries in Hong Kong have operated Mandatory Provident Scheme Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance for all of its employees in Hong Kong. Contributions are made based on 5-10% of the employees' basic salaries and are charged to income statement 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.

Prior to the introduction of the MPF Scheme, the Group had operated retirement scheme under the ORSO Scheme. This ORSO Scheme was discontinued and the benefits for the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme were held separately from those of the Group and were transferred directly to the MPF Scheme.

The Group's retirement benefits contribution paid for the year is HK\$2,316,000 (2001: HK\$1,681,000).

Notes to the Financial Statements

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37. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions, which were conducted in the ordinary course of the Group's business, with its related companies:

Name	Notes	Nature of transactions	2002 HK\$'000	2001 HK\$'000
BTL System (HK) Limited	(i)	Sales to	-	6
	(i)	Purchase from	-	670
HKC Intown Limited	(i)	Sales to	9	4
	(i)	Internet access fee	17	35
	(ii)	Rental income	30	240
Hong Kong Communications Computer Company Limited	(i)	Sales to	7	8
	(i)	Computer software maintenance fee and purchase of computer hardwares	1,665	1,261
	(ii)	Rental income	310	310
	(iii)	Repairs and maintenance fee	167	6
Hong Kong Communications Industrial Company Limited	(i)	Sales to	-	3
	(i)	Purchase from	147	4
	(ii)	Rental income	760	200
Hong Kong Communications Holdings Limited	(iv)	Disposal of leasehold property	1,430	-
Hong Kong Communications Investments Limited	(iv)	Disposal of an investment property	13,300	-
HKC eFinance28 Limited	(ii)	Rental income	63	45
In Publishing Limited	(ii)	Rental income	10	120
Koywa HKC Company Limited	(i)	Sales to	-	98
Webradio Limited	(ii)	Rental income	108	63

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For the year ended 31 March 2002

37. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company ceased to have transactions with BTL System (HK) Limited and Koywa HKC Company Limited since 1 April 2001.

Mr. Chan Chung Yee, Hubert and Mr. Chan Chung Yin, Roy, directors of the Company, have beneficial interests in all the above companies.

Mr. Tsui Hon Wing, a director of the Company, has beneficial interest in BTL System (HK) Limited and Hong Kong Communications Industrial Company Limited.

Mr. Chan Man Min, a director of the Company has beneficial interest in BTL System (HK) Limited, HKC Intown Limited, Hong Kong Communications Computer Company Limited, Hong Kong Communications Industrial Company Limited and Koywa HKC Company Limited.

Notes:

- (i) Sales and purchases are based on cost plus a percentage of profit mark-up.
- (ii) Rental income was charged based on the area used, which management considered to be an appropriate basis of allocation.
- (iii) Repairs and maintenance fees are based on actual cost incurred.
- (iv) The sale proceeds are based on the market value of the properties.

Notes to the Financial Statements

For the year ended 31 March 2002

38. SUBSIDIARIES

Particulars of the subsidiaries at 31 March 2002 are as follows:

Name	Place of incorporation	Principal place of operation	Issued and fully paid share capital	Percentage of issued capital held by the Company	Principal activities
Generalvestor (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,000,000	100%	Property investment
HKC Group Limited	The British Virgin Islands	Hong Kong	Ordinary shares US\$100,000	100%	Investment holding
HKC Properties Limited	The British Virgin Islands	Hong Kong	Ordinary shares US\$30	100%	Investment holding
Hong Kong Communications Equipment Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,560	100%	Sales and distribution of mobile phones and office telephone systems
Hong Kong Communications Equipment Distribution Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$1,000,000	100%	Inactive
Singapore Communications Equipment Co (Pte) Ltd.	The Republic of Singapore	Singapore	Ordinary shares S\$160,000	100%	Sales and distribution of office telephone systems
Superior Charm Limited	The British Virgin Islands	Hong Kong	Ordinary shares HK\$1,200	100%	Investment holding

The Company directly holds the interest in HKC Group Limited. All other interests shown above are indirectly held by the Company.

None of the subsidiaries had any loan capital subsisting at 31 March 2002 or at any time during the year.