

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the properties disposed of is credited to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired terms of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment, other than factory premises under construction, are stated at cost or valuation less depreciation and amortisation. 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 the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which they are 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 an asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on 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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Leasehold 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 amortisation. 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 surplus arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which cases this surplus is credit to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the property revaluation reserve relating to previous revaluation of that particular asset. On the subsequent sale or retirement of such revalued asset, the attributable revaluation surplus not yet transferred to deficit in prior years is transferred to deficit.

Freehold land outside Hong Kong is not amortised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than factory premises under construction, over their estimated useful lives and after taking into account their estimated residual value at the following rates:

Leasehold land	Over the unexpired term of relevant lease on straight-line method
Buildings	2% per annum on straight-line method
Plant and machinery	20% per annum on reducing balance method
Furniture, fixtures and equipment	15% per annum on reducing balance method
Moulds and tools	25% per annum on reducing balance method
Motor vehicles	25% per annum on reducing balance method

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

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair values 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 hire purchase commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Factory premises under construction

Factory premises under construction in the PRC are stated at cost, less provision for any impairment in value. Cost includes development costs, attributable interest and overheads capitalised during the development period.

No depreciation and amortisation is provided for factory premises under construction until the construction is completed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred development expenditure

Development costs are deferred if there is a clearly defined development project which is technically feasible and commercially viable and the estimated future economic benefits are sufficient to cover costs incurred. Such development costs are amortised based on the actual sales for a financial period as a proportion of the estimated total sales of the related products. All other development costs are written off in the period in which they are incurred.

The Directors review the future economic benefits from the deferred development expenditure on a regular basis. Should the Directors consider that any particular development projects have no further commercial value, the unamortised balance of all related deferred costs will be written off immediately to the income statement.

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 provision for any impairment in value.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in reserves.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan notes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

Turnover represents the net amounts received and receivable from sales of goods, property rentals and related building management income and interest income during the year/period.

Revenue recognition

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

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Building management fee income is recognised when services are rendered.

Interest income is recognised on a time basis, by reference to the principal outstanding at the rate applicable.

Operating leases

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

Taxation

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense 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.

Foreign currencies

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

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

7. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operations by principal activity is as follows:

	Turnover		Contribution to loss from operations	
	1.10.2000 to 30.9.2001 HK\$'000	1.7.1999 to 30.9.2000 HK\$'000	1.10.2000 to 30.9.2001 HK\$'000	1.7.1999 to 30.9.2000 HK\$'000
<i>By principal activity:</i>				
Telecommunications product manufacturing operation	83,774	532,079	(19,219)	(69,646)
Property investment	197	5,291	(189)	1,989
Interest income	212	2,207	212	2,207
	<u>84,183</u>	<u>539,577</u>	<u>(19,196)</u>	<u>(65,450)</u>
Other revenue			5,522	55,236
Selling and administrative expenses			(25,838)	(97,662)
Loss from operations			<u>(39,512)</u>	<u>(107,876)</u>

No analysis of the Group's turnover and contribution to loss from operations for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 by geographical market has been presented as the information is not available.

8. OTHER REVENUE

Included in other revenue of the Group in the fifteen-month period ended 30 September 2000 was an amount of approximately HK\$38,900,000 in respect of receipt from a former customer for litigation settlement. There was no such item for the year ended 30 September 2001.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

9. LOSS FROM OPERATIONS

	1.10.2000 to 30.9.2001 <i>HK\$'000</i>	1.7.1999 to 30.9.2000 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of deferred development expenditure	4,355	14,317
Auditors' remuneration	268	913
Depreciation and amortisation of property, plant and equipment:		
Owned assets	3,809	16,893
Assets held under hire purchase contracts	–	113
Less: Amount capitalised in deferred development expenditure	(538)	(1,886)
	<u>3,271</u>	<u>15,120</u>
Directors' remuneration:		
Fees	–	–
Other emoluments	75	5,774
	<u>75</u>	<u>5,774</u>
Other staff costs	21,848	66,708
	<u>21,923</u>	<u>72,482</u>
Less: Amount capitalised in deferred development expenditure	(3,589)	(15,360)
	<u>18,334</u>	<u>57,122</u>
Loss on disposals of property, plant and equipment	217	112
Operating lease rental payments in respect of:		
Land and buildings	1,916	1,954
Plant and machinery	–	20
and after crediting:		
Gross rental income	<u>197</u>	<u>5,130</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

No financial information in respect of the Directors' and employees' remuneration for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

11. FINANCE COSTS

	1.10.2000 to 30.9.2001 HK\$'000	1.7.1999 to 30.9.2000 HK\$'000
Amortisation of premium payable upon the final redemption of the convertible notes (note 24)	4,357	1,366
Interest on bank loans and other borrowings wholly repayable within five years	892	49,362
Hire purchase charges	3	381
Total finance costs	<u>5,252</u>	<u>51,109</u>

12. TAXATION

No provision for profits tax has been made in the financial statements as, in the opinion of the Current Directors, neither the Group nor the Company had any assessable profits for the period/year.

Details of potential deferred taxation are set out in note 33.

13. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss attributable to shareholders for the year ended 30 September 2001 of approximately HK\$44,953,000 (for the fifteen-month period ended 30 September 2000: a loss attributable to shareholders of approximately HK\$206,132,000), a loss of approximately HK\$1,113,000 (for the fifteen-month period ended 30 September 2000: a loss of approximately HK\$239,369,000) has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the year ended 30 September 2001 of approximately HK\$44,953,000 (for the fifteen-month period ended 30 September 2000: a loss attributable to shareholders of approximately HK\$206,132,000) and on the weighted average number of 6,302,769,767 (for the fifteen-month period ended 30 September 2000: 1,794,650,082) shares in issue during the year.

The computation of diluted loss per share for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 has not assumed the exercise of the convertible notes as their exercise would be anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

15. INVESTMENT PROPERTIES

	THE GROUP	
	30.9.2001 <i>HK\$'000</i>	30.9.2000 <i>HK\$'000</i>
At valuation	—	<u>18,000</u>

During the year, the Group disposed of the investment properties, together with the medium-term leasehold land and buildings in Hong Kong and certain furniture, fixtures and equipment, for a total consideration of HK\$46,000,000. The total loss on disposal was approximately HK\$217,000.

16. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP							Total <i>HK\$'000</i>
	Leasehold land and buildings in Hong Kong <i>HK\$'000</i> <i>(note a)</i>	Freehold land and buildings outside Hong Kong <i>HK\$'000</i> <i>(note b)</i>	Factory premises under construction in the PRC <i>HK\$'000</i> <i>(note c)</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	
AT COST OR VALUATION								
At 1 October 2000	21,444	14,754	14,151	128,559	24,246	4,940	4,375	212,469
Additions	—	—	—	34	7	102	3	146
Disposals	(21,444)	—	—	(44)	(6,598)	(16)	(47)	(28,149)
At 30 September 2001	<u>—</u>	<u>14,754</u>	<u>14,151</u>	<u>128,549</u>	<u>17,655</u>	<u>5,026</u>	<u>4,331</u>	<u>184,466</u>
Analysed as:								
At cost	—	—	—	128,549	17,655	5,026	4,331	155,561
At valuation – 2001	—	—	14,151	—	—	—	—	14,151
At valuation – 1999	—	14,754	—	—	—	—	—	14,754
	<u>—</u>	<u>14,754</u>	<u>14,151</u>	<u>128,549</u>	<u>17,655</u>	<u>5,026</u>	<u>4,331</u>	<u>184,466</u>
DEPRECIATION AND AMORTISATION								
At 1 October 2000	—	—	—	93,883	2,464	2,264	3,585	102,196
Provided for the year	37	—	—	2,683	792	226	71	3,809
Eliminated on disposals	(37)	—	—	(24)	(229)	(4)	(1)	(295)
At 30 September 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>96,542</u>	<u>3,027</u>	<u>2,486</u>	<u>3,655</u>	<u>105,710</u>
NET BOOK VALUE								
At 30 September 2001	<u>—</u>	<u>14,754</u>	<u>14,151</u>	<u>32,007</u>	<u>14,628</u>	<u>2,540</u>	<u>676</u>	<u>78,756</u>
At 30 September 2000	<u>21,444</u>	<u>14,754</u>	<u>14,151</u>	<u>34,676</u>	<u>21,782</u>	<u>2,676</u>	<u>790</u>	<u>110,273</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

- (a) As mentioned in note 15, during the year, the Group disposed of the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, together with the investment properties, for a total consideration of HK\$46,000,000.
- (b) At 30 June 1999, the freehold land and buildings outside Hong Kong were valued by Jones Lang Wotton, Chartered Surveyors, on an open market value basis. No valuation as at 30 September 2001 has been obtained as, in the opinion of the Current Directors, the cost involved in obtaining such information would be out of proportion to the value to the members of the Company.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK\$15,713,000 (30.9.2000: HK\$16,128,000).

- (c) The amount represents the Group's interest in the factory premises under construction (the "Factory Premises"). The Group had entered into an agreement (the "Dongguan Agreement") with 東莞市城區工業發展總公司 ("工業公司") of Dongguan City on a 50:50 basis for the construction of the Factory Premises in the Tin Bao Industrial District of Dongguan (the "Project"). Pursuant to the Dongguan Agreement, the Group will contribute all the construction costs of the Factory Premises and 工業公司 will contribute the land use rights to the Project. The Group is entitled to use the Factory Premises to be constructed thereon rent-free for a period of five years upon commencement of operation, and then at nominal rental for the remaining forty-five years. At the expiration of the fifty-year period, the Factory Premises together with the land use rights will revert to 工業公司.

At 30 September 2001, the Group's interests in the Factory Premises were stated at HK\$14,151,000 based on the valuation carried out by the Current Directors.

- (d) No financial information in respect of the net book value of plant and equipment held under hire purchase contracts as at 30 September 2001 and 2000 has been presented as the information is not available.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	30.9.2001	30.9.2000
	HK\$'000	HK\$'000
Unlisted investments, at cost	106,713	106,713
Amounts due from subsidiaries	933,488	933,488
	<hr/>	<hr/>
	1,040,201	1,040,201
Less: Impairment losses recognised and amounts written-off	(1,040,201)	(1,040,201)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries of the Company as at 30 September 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Dongguan S.Megga Telecommunications Limited	PRC/PRC	HK\$8,000,000 registered capital	–	70	Manufacture of telecommunications products, now inactive
Fairway Enterprises Limited	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Property investment
Lucky Cheer Limited	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Property investment
Maxway Properties Limited	Hong Kong/ Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Property trading and investment
S.Megga Estate Management Limited (in Receivership)	Hong Kong/ Hong Kong	1,000 ordinary shares of HK\$100 each	–	100	Investment holding, property trading and investment
S.Megga Global Limited (in Receivership)	British Virgin Islands/ Hong Kong	10 ordinary shares of HK\$0.10 each	–	100	Investment holding
S.Megga Nominee Limited (in Receivership)	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Provision of nominee services, now inactive
S.Megga Technology Limited (in Receivership)	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Research and development of telecommunications products, now inactive
S.Megga Telecommunications Limited (in Receivership)	Hong Kong/ Hong Kong	10 ordinary shares of HK\$100 each and 232,433 non-voting deferred shares of HK\$100 each (note b)	–	100	Manufacture of telecommunications products, now inactive
S.Meggatel Sdn. Bhd.	Malaysia/ Malaysia	6,411,765 ordinary shares of 1 Ringgit each	–	70	Manufacture of cordless telephones and other telecommunications products, now inactive
S.Meggatel (BVI) Limited (in Receivership)	British Virgin Islands/ Hong Kong	232,433 ordinary shares of HK\$0.10 each	100	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

17. INTERESTS IN SUBSIDIARIES (continued)

Notes:

- (a) The shares of all the above subsidiaries were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.
- (b) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution or winding up.

The Current Directors are of the opinion that a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or assets of the Group.

None of the subsidiaries had any loan capital outstanding at the end of the year/period.

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	30.9.2001 HK\$'000	30.9.2000 HK\$'000	30.9.2001 HK\$'000	30.9.2000 HK\$'000
Share of net assets	–	–	–	–
Unlisted shares, at cost	–	–	8,125	8,125
Amounts due from associates	66,175	65,986	52	52
	<u>66,175</u>	<u>65,986</u>	<u>8,177</u>	<u>8,177</u>
Less: Impairment losses recognised and amounts written off	(66,175)	(65,986)	(8,177)	(8,177)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Particulars of the principal associates of the Group as at 30 September 2001 are as follows:

Name of associate	Place of incorporation/ operation	Effective percentage of equity capital attributable to the Group %	Principal activities
Act Power Enterprises Limited (“APE”)	British Virgin Islands/Hong Kong	40	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 September 2001

18. INTERESTS IN ASSOCIATES (continued)

Name of associate	Place of incorporation/ operation	Effective percentage of equity capital attributable to the Group %	Principal activities
Charmgold Development Limited (in Receivership)	Hong Kong/PRC	50	Property investment, now inactive
Cheertex Limited (in Receivership)	Hong Kong/ Hong Kong	50	Investment holding
Glory World Development Limited	Hong Kong/ Hong Kong	50	Investment holding
Take Queen Limited (in Receivership)	British Virgin Islands/Hong Kong	50	Investment holding

The shares of all the above associates were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

The Current Directors are of the opinion that a complete list of the particulars of associates will be of excessive length and therefore the above list contains only the particulars of those associates which principally affect the results or assets of the Group.

19. DEFERRED DEVELOPMENT EXPENDITURE

	THE GROUP	
	30.9.2001 HK\$ '000	30.9.2000 HK\$ '000
Development costs:		
Balance at beginning of the year/period	–	21,798
Amount capitalised during the year/period	4,355	21,571
Amount amortised during the year/period	(4,355)	(14,317)
Amount written-off during the year/period	–	(29,052)
Balance at end of the year/period	–	–