

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the effective date of acquisition.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets or liabilities of subsidiaries. The share of net liabilities of subsidiaries by minority shareholders may exceed their share of capital portion of those subsidiaries if the minority shareholders have undertaken to make good any losses incurred by the subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value that is other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

## **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **(d) Goodwill**

Goodwill represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired and is taken to reserves in the year of acquisition.

### **(e) Fixed assets**

#### **(i) Leasehold land and buildings**

Leasehold land and buildings are stated at valuation less accumulated amortisation or depreciation and any provisions required to reflect recoverable amount. Independent valuations are performed on a regular basis. In the intervening years, the Directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit.

#### **(ii) Amortisation/depreciation of leasehold land and buildings**

Amortisation/depreciation of leasehold land and buildings is calculated to write off its valuation on the straight-line basis over the unexpired period of the lease or its expected useful life to the Group, whichever is shorter. The principal annual rate used for this purpose is 2%.

#### **(iii) Other fixed assets**

Other fixed assets are stated at cost less accumulated depreciation. Depreciation of other fixed assets is calculated to write off their cost on the straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:–

Leasehold improvements	20%
Furniture and fixtures	20%
Equipment	20% to 25%
Motor vehicles	30%
Computers	30%

## **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **(e) Fixed assets (continued)**

#### **(iv) Impairment of fixed assets**

The carrying amounts of fixed assets other than leasehold land and buildings are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. The amount of the reduction to recoverable amount is charged to the profit and loss account.

#### **(v) Gain or loss on disposal of fixed assets**

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and shown as a movement in reserves.

#### **(vi) Cost of restoring and improving fixed assets**

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### **(vii) Leased assets**

Hire purchase contracts that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Hire purchase contracts are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under hire purchase contracts are depreciated over the shorter of their estimated useful lives or the lease periods.

## **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **(f) Investment in securities**

#### **(i) Investment securities**

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss, representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account. Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account. Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

#### **(ii) Trading investments**

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account.

### **(g) Club debentures**

Club debentures are carried at fair value.

### **(h) Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost represents the invoiced cost of inventories, less volume discounts. In general, costs are assigned to individual items on a weighted average basis. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation.

### **(i) Trade receivables**

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

## **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **(j) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### **(k) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and a jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

### **(l) Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service and commission income are recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### **(m) Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### **(n) Comparative figures**

Comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative figures have been extended to take into account the requirements of the revised Hong Kong Statement of Standard Accounting Practice 1.

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Company is engaged in investment holding and its subsidiaries are principally engaged in trading of telecommunications products. Revenue recognised during the year are as follows:

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		
Sale of goods	<b>4,066,726</b>	2,727,546
Other revenues		
Interest income	<b>51,847</b>	29,646
Commission income	<b>1,223</b>	12,731
Service income	<b>678</b>	—
	<b>53,748</b>	42,377
Total revenues	<b>4,120,474</b>	2,769,923

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	<b>Turnover</b>		<b>Operating profit/(loss)</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Principal activities:				
Trading of telecommunications products	<b>4,066,726</b>	2,727,546	<b>464,885</b>	308,337
Other operations	—	—	<b>(4,473)</b>	—
	<b>4,066,726</b>	2,727,546	<b>460,412</b>	308,337
Principal markets:				
The PRC	<b>3,364,274</b>	2,064,640	<b>384,889</b>	231,925
Hong Kong and Macau	<b>702,452</b>	662,906	<b>75,523</b>	76,412
	<b>4,066,726</b>	2,727,546	<b>460,412</b>	308,337

### 3. OPERATING PROFIT

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating profit is stated after crediting and charging the following:		
Crediting		
Gain on disposal of trading investments	<b>2,584</b>	—
Gain on disposal of fixed assets	<b>36</b>	92
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Charging		
Auditors' remuneration	<b>947</b>	795
Deficit on revaluation of leasehold land and buildings	—	2,782
Depreciation of owned fixed assets	<b>2,560</b>	1,156
Depreciation on fixed assets held under hire purchase contracts	<b>7</b>	252
Exchange loss	<b>2,226</b>	737
Staff costs including Directors' remuneration	<b>68,482</b>	42,895
Net unrealised loss on trading investments	<b>7,412</b>	375
Operating lease on land and buildings	<b>3,365</b>	1,840
Provision for bad and doubtful debts	<b>8,500</b>	11,519
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### 4. FINANCE COSTS

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank loan wholly repayable within five years	<b>134</b>	153
Interest element of hire purchase contracts	<b>14</b>	45
	<hr/>	<hr/>
	<b>148</b>	198
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## 5. TAXATION

- (a) The amount of taxation charged to the consolidated profit and loss account represents:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax (note (i))	<b>27,789</b>	24,789
Overseas taxation (note (ii))	<b>39,083</b>	22,540
	<b>66,872</b>	47,329

- (i) Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits of group companies operating in Hong Kong for the year.
- (ii) The overseas tax provision is made in respect of Macau Complementary Income Tax by overseas subsidiary companies. The applicable tax rate for the year is 15.75% (1999: 15.75%).
- (b) Taxation payable in the balance sheet represents liabilities of the Group in respect of Hong Kong profits tax and overseas taxation provided for the current and prior years less provisional tax paid.

## 6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$190,611,000 (1999: HK\$129,695,000).

## 7. DIVIDENDS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interim, paid, by subsidiaries to their then shareholders before the group reorganisation	—	50,000
Interim, paid, by the Company of HK\$0.16 (1999:HK\$0.10) per ordinary share	<b>70,904</b>	40,213
Final, proposed, by the Company of HK\$0.22 (1999: HK\$0.20) per ordinary share	<b>100,628</b>	80,831
	<b>171,532</b>	171,044

The proposed dividend of HK\$100,628,000 for the year ended 30th September 2000 is calculated based on 454,283,193 shares in issue as at 30th September 2000 and an additional 3,117,000 ordinary shares issued upon the exercise of share options and warrants as mentioned in notes 19(e) and (f).



## 8. EARNINGS PER SHARE – GROUP

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$394,637,000 (1999: HK260,810,000).

The basic earnings per share is based on the weighted average of 427,889,568 (1999: 350,830,274) ordinary shares in issue during the year. The fully diluted earnings per share is based on 446,749,541 (1999: 363,321,519) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 18,859,973 (1999: 12,491,245) ordinary shares deemed to be issued at no consideration if all outstanding warrants and options had been exercised.

## 9. DIRECTORS' AND SENIOR MANAGERMENTS' EMOLUMENTS

### (a) Directors' remuneration

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	<b>2000</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>1999</b>
		<b>HK\$'000</b>
Independent Non-executive Directors fees	<b>300</b>	150
Executive Directors		
Basic salaries and allowances	<b>5,660</b>	4,162
Discretionary bonuses	<b>50,000</b>	34,149
	<b>55,960</b>	38,461

During the year, a Director of the Company had exercised his share option to subscribe for 300,000 ordinary shares in the Company at an exercise price of HK\$1.51 per share. The closing market price of the Company's share at the exercise date was HK\$12.70.

As at 30th September 2000, the outstanding options granted by the Company to the Executive Directors of the Company were as follows:

<b>Date of grant</b>	<b>Exercise price HK\$</b>	<b>Exerciseable period</b>	<b>Number of ordinary shares eligible for subscription under the share options</b>
23rd April 1999	1.51	22nd May 1999 to 21st May 2009	1,700,000
26th April 1999	1.50	25th May 1999 to 24th May 2009	20,000,000

The closing market price of the Company's shares as at 30th September 2000 was HK\$9.00 per share.

Apart from the aforesaid, no other emoluments have been paid to the Directors for the years ended 30th September 2000 and 1999.

## 9. DIRECTORS' AND SENIOR MANAGERMENTS' EMOLUMENTS (CONTINUED)

### (a) Directors' remuneration (Continued)

The number of Directors whose emoluments fell within the following bands are as follows:

Directors' emoluments	Number of Directors	
	2000	1999
Nil to HK\$1,000,000	2	2
HK\$5,000,001 to HK\$5,500,000	—	1
HK\$5,500,001 to HK\$6,000,000	—	1
HK\$7,500,001 to HK\$8,000,000	1	—
HK\$10,000,001 to HK\$10,500,000	1	—
HK\$10,500,001 to HK\$11,000,000	1	—
HK\$11,500,001 to HK\$12,000,000	—	1
HK\$15,500,001 to HK\$16,000,000	—	1
HK\$26,500,001 to HK\$27,000,000	1	—

No Directors have waived emoluments for the years ended 30th September 2000 and 1999.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four Directors (1999: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (1999: one) individual during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Basic salaries and allowances	413	485
Bonuses	42	75
	<u>455</u>	<u>560</u>

The emoluments of the individual fall within the following bands:

	Number of individuals	
	2000	1999
Nil to HK\$1,000,000	1	1