

13. Charges on group assets

As at 31st March, 2001, the Group had the following charges on its assets:

- a. The leasehold land and buildings with a carrying value of HK\$7,609,000 (30th September, 2000: HK\$7,689,000) were pledged to a bank to secure banking facilities to certain subsidiaries of the Company.
- b. Fixed deposits totalling HK\$614,440,000 (30th September, 2000: HK\$753,165,000) have been placed as security for banking facilities extended to certain subsidiaries of the Company.

FINANCIAL HIGHLIGHTS AND REVIEW OF BUSINESS

	Unaudited		Increase/ (Decrease)
	Six months ended 31st March 2001	2000	
Turnover in dollars (HK\$'000)	1,961,542	2,160,196	(9.2%)
Turnover in volume (units'000)	1,338	1,198	11.7%
Profit attributable to shareholders (HK\$'000)	222,313	182,543	21.8%
Earnings per share			
- Basic	HK\$0.49	HK\$0.44	11.4%
- Diluted	HK\$0.47	HK\$0.38	23.7%

During the Period, the Group's profit attributable to shareholders grew by 21.8% to HK\$222 million (2000: HK\$183 million). Despite a fall in sales turnover of 9.2% to HK\$1,962 million, the Group was able to increase sales volume by approximately 11.7% to approximately 1.3 million units. The Group's basic and diluted earnings per share increased by 11.4% to HK\$0.49 (2000: HK\$0.44) and 23.7% to HK\$0.47 (2000: HK\$0.38), respectively. The basis of calculating the earnings per share is detailed in note 6.

Sales and Profit Margins

During the Period, the Group sold approximately 1.3 million (2000: approximately 1.2 million) mobile phones and recorded a turnover of HK\$1,962 million (2000: HK\$2,160 million) in sales revenue. The average selling price per mobile phone sold during the Period was approximately HK\$1,400 (2000: HK\$1,800). The decrease in overall sales turnover compared to the previous period was attributable to an overall decrease in the average selling price of mobile phones during the Period, and the delay of launch of certain mobile-phone models by manufacturers.

The decline in the overall average selling price of the Group's mobile phones was a direct result of certain mobile-phone models that were at the latter stages of their product life: such as Nokia 5110, Samsung SGH-600, SGH-800 and SGH-2200 models; the average selling price of these models was approximately HK\$1,300, and had contributed to over 83% of the Group's volume turnover during the Period. The Group was able to successfully extend the product life of most of these models, up until now, for a period of more than two to three years.

The Group foresees very good prospects in the next few years with a total of five new Samsung mobile-phone models brought on to the market during the Period, including SGH-A288 and SGH-N288 models which the Group has exclusive distribution rights. The average selling price of the five models introduced was approximately HK\$2,500 during the Period, with a selling price range of approximately HK\$2,000 to HK\$5,000.

The sales turnover, in terms of sales value/volume, and gross profit can be further analysed through the sales mix of the mobile phones sold. The Group sold over 829,000 (2000: 668,000) units of Samsung mobile phones and over 501,000 (2000: 527,000) units of Nokia mobile phones during the Period. The proportionate increase in the number of Samsung mobile phones sold over Nokia mobile phones in the Period had contributed to the overall increase in gross profit in comparison with the same period in the previous year. The average gross profit for Samsung mobile phones was approximately 19% (2000: approximately 15%); in comparison, the average gross profit yield of Nokia mobile phones was approximately 3% (2000: approximately 11%). The overall combined average gross profit margin was approximately 15% (2000: approximately 13%) for the Period.

The PRC continued to be the Group's major market in terms of sales. During the Period, of the total sales turnover of HK\$1,962 million (2000: HK\$2,160 million), over 88% or HK\$1,745 million (2000: approximately 84% or HK\$1,817 million) of total turnover sales were made in this region. The Group was particularly pleased with the sales growth of Samsung mobile phones in this region with an approximately 18% increase in unit sales compared to the same period in the previous year.

The balance of total sales, in terms of value and volume, as well as contribution to operating profit, were from the Group's other markets: Hong Kong, Taiwan and Macau, all of these regions have shown steady increases in market share and contribution to operating profits.

Attributable to the Group's continued success during the Period was the Group's ability to gain exclusive rights to certain Samsung mobile phones; and the deployment of tailored-made marketing strategies for each mobile-phone model that the Group distributes, and for the markets in which the products are sold. The Group will continue to strive to maximise profits through a combination of both product and volume sales mix.

Financial Review

	Unaudited 31st March, 2001	Audited 30th September, 2000
Current ratio	1.68	1.50
Cash and bank balances (HK\$'000)	924,941	860,747
Days inventory turnover		
- in terms of value	38 days	21 days
- in terms of volume	32 days	32 days
Days debtors turnover	46 days	29 days
Gearing ratio	0.08%	0.13%

Inventory levels rose 4.8% to HK\$350 million (30th September, 2000: HK\$334 million) while inventory days rose from an average of 21 days to 38 days. The slight increase in inventory levels was mainly because the current inventory batch of mobile phones are relatively more costly than in the previous years as five new mobile-phone models were introduced during the Period. In terms of average volume inventory turnover days, the Group has maintained an approximate one-month of inventory supply.

The trade receivable balances rose 5.2% to HK\$509 million and the average days receivables of the Group rose from 29 days to 46 days. The contributing factor leading to the increase in average days receivables was the revision of the Group's trade credit policy over the past 12 months to its customers. The Group had experienced significant growth in the past two years, with sales and volume turnover recorded more than 100% increase. In achieving this exceptional growth, the Group was required to extend more favourable trade credit terms to its customers. The normal credit period granted to the Group's customers is up to a period of 90 days, except for sales made to certain credit-worthy customers as approved by senior management of the Group, of which a slightly longer credit period may be granted. During the Period, the Group had worked hard at its working capital management of aged receivables as shown in the analysis in note 7. Over 95% of aged receivables were less than 3 months old, compared to 82.7% as at 30th September, 2000. Over 3 months aged receivables have fallen approximately 73.1% to HK\$23 million. The Group's provision on overall receivables remained relatively unchanged. The Group's trade and bills payable creditors normally allow the Group up to a period of 90 days credit.

The Group has continued to maintain a close control over its working capital which saw cash and bank balances rose 7.5% from approximately HK\$661 million to HK\$925 million during the period.

The Group's funding requirements have mainly been financed by its working capital. The Group conducts its core business transactions in mainly Hong Kong dollar and US dollar denominated currencies. Over 99% of the Group's cash and bank balances are in either Hong Kong dollar or US dollar denominated currencies, hence the Hong Kong dollar US dollar peg presents a natural hedge against currency fluctuations under normal trading circumstances.

The low interest rate environment presents a challenge to the Group with regard to its free cash. During the Period, under direct professional management, the Group was able to diversify its investments to maximise return on its free cash by investing in foreign currency instruments which resulted in a net realised foreign exchange gain of approximately HK\$20 million. The Group will strive to continue to utilise its resources efficiently, under risk management guidelines, to maximise shareholders' wealth.

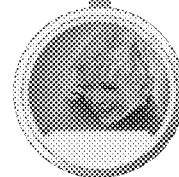
The gearing ratio of the Group had fallen 38.5% to 0.08%. The Group is satisfied with the business growth achieved during the past few years, and can rest at ease of being able to sustain the current return through efficient sales mix and self generated resources to run its current operations. However, under the current corporate structure, the Group believes that there are opportunities to raise debt financing in the near future, especially in the current low interest rate environment, to enable the Group to further capitalise on the rapid growth of the PRC telecommunication market, just as it did with the equity fund raised two years ago. The Group believes that additional working capital finance will enable the Group to enhance opportunities in increasing sales volume and maximise profits in the PRC. In this respect, subsequent to the Period, the Group had mandated a commercial bank to structure a medium-term syndicated loan. The amount of the loan to be raised and the terms thereof are subject to the final loan structure currently being finalised.

Chinese Sports Program Syndicating Company Limited

Chinese Sports Program Syndicating Company Limited ("CSS"), a subsidiary of the Company, embarked on a series of new sports program production and broadcasting in 2000. With the support of the State Sport General Administration of China, CSS intends to produce high quality sports programs which can be distributed worldwide through various media platforms.

To achieve its goal of becoming a multi-media (including wireless communication devices) content supplier, CSS has been building up relationship with various cable and internet network in the past few months. To better reflect the business nature of CSS, an application has been made to the Registrar of Companies in Hong Kong to change the name of CSS to Sino Media Group Limited ("SMG") in 2001.

Apart from content production and syndication, SMG plays an active role in event management both in the PRC and Hong Kong. Endorsed by the Beijing 2008 Olympic Games Bid Committee, SMG organised a "Skipathon" on 10th June, 2001 which featured 2008 young people skipping together. This symbolic event was organized not only to set a world record, but to show support to Beijing's bid to host the 2008 Olympic Games. In Hong Kong, SMG has been appointed as the public affairs agent of the South China Athletic Association Football Team in early 2001 and sponsored the team for the HKFA Cup.



Capital Structure

There had been no material change in capital structure of the Group since 30th September, 2000, except for the exercise of share options and warrants by certain shareholders of the Company.

Future Plans and Prospects

During the past few years, the Group's market research and management expertise have enabled the Group to identify market segments in the regions in which the Group distributes its mobile phones. The Group's marketing strategies have been tailored for each mobile-phone model that it distributes, they are also tailored specifically for the different regions, especially for the different provinces in the PRC, each having different taste and spending habits and disposable income. Unlike other distributors or manufacturers who may employ a global sales strategy or simply "sell" mobile phones, it is a continual challenge for the Group to keep up with the market information of these places so that the appropriate marketing strategies can be deployed and acted upon on a timely basis. As a result of this experience, the Group has identified the replacement handset market, where the majority of the Group's product's users are from the mid-to high-end segment, as being able to contribute higher profits per mobile phone. With higher profit margins to work with, the Group is able to extend the product life of these products for longer period of time that is above industry average.

The management foresees bright prospects for the Group after the successful launch of a total of five new phone models during the Period, which has received overwhelmingly positive responses from consumers in the PRC market where the Group chiefly distributes its mobile phones. Given the Group's marketing expertise and strong track record in maintaining price stability and prolonging the product life cycle of mobile phones, it expects these new phone models to provide healthy revenue and profits for the Group in the coming years.

The mobile-phone models that the Group currently distributes are mainly aimed at a segment of the market where, at this stage, we feel it is appropriate in achieving above industry profits and avoid the price war that is currently being fought out by local and foreign manufacturers in the region in marketing low-end products aimed at the low-end market segments.

With the vast network the Group has and having exclusive rights to mid-to high-end mobile phones, the Group can feel comfortable with being able to control the marketing strategies and achieving a balance of sales volume mix to maximize volume and profits.

Propelled by the explosive growth of telecommunications in the region, the Group has drawn up development plans for its operation in Hong Kong, the PRC and Taiwan.

PRC

Consolidating Market Position

The number of mobile-phone users in the PRC reached 100 million in the first quarter of 2001, more than doubling the 43 million users recorded in 1999. The Group expects this growth momentum to continue in the coming years and thus will further contribute to our growth in this market. We are negotiating with suppliers for more mobile-phone exclusive distributorships in the PRC market.

Retail Expansion

The Group has plans to solidify its retail/wholesale network. Riding on the success of Samsung AnyCall Image Shop in Hong Kong, the Group will make use of its brand shop operating experience to establish a new retail line under its own name in the near future. Operating retail outlets in Hong Kong, the PRC and Taiwan will enable the Group to maintain profit and price stability for the mobile phones for which the Group has exclusive distribution rights to, which is always a challenge for the mobile-phone industry both regionally and globally.