Financial Highlights

During the year ended 30th September, 2001, the Group recorded a sales turnover of approximately HK$4.37 billion (2000: HK$4.06 billion), representing an increase of over 7.5% for the year. In terms of sales turnover in volume, the Group recorded an increase of 9% to approximately 2.72 million units (2000: 2.49 million). The Group's net profit after tax and minority interests grew by 20% to approximately HK$475 million (2000: HK$395 million). The Group's basic earnings per share increased by 12% to HK$0.103 (2000: HK$0.092). The diluted earnings per share was HK$0.098 (2000: HK$0.088), representing an increase of 11% from the previous year.

Mainland China

The Group's sales to the Mainland China region grew 13% to approximately HK$3.8 billion (2000: HK$3.4 billion), representing approximately 87% (2000: 83%) of the Group's total sales. The composition of the Group's Mainland China sales during the year can be further analysed as follows: Eastern China made up 23% (2000: 21%) of the Group's total Mainland China sales and Northern China recorded 22% (2000: 16%) of the Group's total Mainland China sales, the combine Northern and Eastern China sales was approximately HK$1.7 billion (2000: HK$1.2 billion). Sales in Southern China was approximately HK$1.9 billion (2000: HK$1.8 billion) or 52% (2000: 56%) of total Mainland China sales, while Western China made up 3% (2000: 7%) or approximately HK$117 million (2000: HK$235 million) of the Group's total Mainland China sales.

Reflecting the Group's sales strategies of distributing more premium products, during the year, the Group had aimed to maximise sales mix to enhance profitability. This year, we have distributed more premium products over low-end products. Our sales strategies were aimed at the regions where the income per capita was comparatively high as the consumers in these regions had more disposable income; hence the growth of sales this year were in Southern, Eastern and Northern China, while sales in Western China fell because consumers in this region had comparatively lower disposable income per capita.

One of the Group's success in doing business in Mainland China and other regions is that it is able to provide a "win-win" business situation for its customers, and in turn their customers, and all along the chain line to the retailers. This policy ensures each person made profits from sales made by the Group. If the Group is unable to provide such incentives to its own customers, then it would not receive the respect and loyalty from its customers and the Group's sales strategies will not be successful in ensuring all parties benefited, from supplier down to the retailers.

Independent research shows Samsung's market share in Mainland China in September 2001 to be over 9% (2000: 6%). Management consider that the Group had been influential in assisting Samsung achieve these excellent results.

Mainland China continued to be the Group's major market. According to China's State Statistics Bureau, China's year on year to September 2001 Gross Domestic Product grew 7.6% to 6.7 trillion Yuan, which has outperformed most of the countries in the region. The number of mobile phone users, according to the Minstry of Information, at the end of September 2001 grew to approximately 130 million (September 2000: 70 million), representing approximately 9% of the mobile phone user penetration rate in China.

Although economic growth for Mainland China is expected to be slow in the next year because of the eventual fall out from the slow down of the world economy, the Chinese government has maintained a positive but cautious outlook by putting more emphasis on boosting domestic demand and would continue with active fiscal policies to keep domestic demand high. With China's admission to the WTO, the influx of foreign investment is expected balance out the negative impact on exports as a result of the slow down in the economies worldwide.

The sale of mobile phones hinges very much on domestic consumption. The forecast above will no doubt assist the Group to maintain its sales and will shelter much of the negative impact of the general slow down in the worldwide economy. The mobile telecommunications industry in China still continue as a bright prospect for growth compared with other countries. It is still the fastest growing mobile telecommunications market in the world. With a comparatively low mobile phone penetration rate of only 9%, the Group is confident of continuing its success in this region in terms of sustaining turnover and profits. However the Group will be cautious of the economic impact on China's economy and will adapt sales strategies to mitigate the situation.

Hong Kong, Macau and Taiwan

The mobile-phone penetration rate is over 80% in Hong Kong in September 2001, and the Group's market segment in this region is the replacement handset market.

Sales in Hong Kong and Macau amounted to approximately HK$467 million (2000: HK$702 million). The Group's sales fell during the first half of this year in this region because of the delays in launch of new model mobile phones by manufacturers. The Hong Kong market is very sophisticated and the mobile-phone replacement market is characterised by frequent introduction of new model mobile phones to cater for its fashion conscious customers. The Group's sales picked up in the second half of year with the introduction of new mobile phone models to cater this market.

The Group has exclusive rights to distribute Samsung mobile phones in Hong Kong and have been very successful in assisting Samsung build their brand name in Hong Kong, boosted by the introduction of new mobile phone models in the second half of the year such as the SGH-A288 and SGH-N288. With quality and trendy handsets to be introduced in the coming year, such as the SGH-408 "Queen Phone", the Group is quietly confident of maintaining its turnover and gross profit margin in this region despite the gloom of the current economic climate.

Late last year, the Group had obtained exclusive rights to distribute Samsung mobile phones in Taiwan. The Group entered the Taiwanese market in October 2000, and from zero market share, the Group has built up an approximate 7%* market share in terms of total value of handsets sold in the Taiwanese market; this is despite the fact that the Taiwan economy was under-performing for most of the year. Contributing to this sales growth was the sale of mobile phone models such as the SGH-A188, SGH-A288 and SGH-N288. With the current model range of mobile phones under our belts and with new models such as the SGH-A408 introduced, the Group is confident of continuing growth in market share in this region. The mobile-phone penetration rate in Taiwan is over 80% in September 2001. Similar to the Hong Kong market, the Group's market segment for Taiwan market is the replacement handset market. The Group made HK$101 million (2000: HK$Nil) in sales to this region, with sales volume increasing after an initial build up period of brand building and positioning during our first 6 months of operations.

The sales growth in this market is attributable to the Group's efforts in extending its marketing strategies and applying the principles to this market effectively.

Sales Mix and Profit Margins

During the year, the Group introduced 6 new mobile phone models into the market, bringing the total number of different handsets under distribution to 12 (2000: 6).

The Group sold approximately 2.72 million (2000: 2.49 million) mobile phones and recorded a sales turnover of HK$4.37 billion (2000: HK$4.06 billion). The increase in overall sales compared to the previous year was largely as a result of the continual growth in the mobile telecommunication market in Mainland China, and the introduction of new model mobile phones, which boosted demand.

Both the Group's earlier model and newer range of mobile phones contributed evenly to this year's sales and gross profits. In the first half of the year, mobile phone models such as the Nokia 5110, Samsung SGH-A188, SGH-600, SGH-800 and SGH-2200 models mainly contributed to the Group's sales and gross profit. The Group has done exceptionally well with certain earlier mobile phone models such as the SGH-600 and SGH-800, which have been selling for over three years in Mainland China.

The introduction of new Samsung mobile phone models such as the SGH-A288, SGH-N188 and SGH-N288 significantly boosted overall sales and gross profit in the second half of the year.

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 1.9 million units (2000: 1.2 million) of Samsung mobile phones and approximaely 0.7 million units (2000: 1.2 million) of Nokia mobile phones during the year. The proportionate increase in the number of Samsung mobile phones sold over Nokia mobile phones in the year 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: 16%); in comparison, the average gross profit yield of Nokia mobile phones was approximately 2% (2000: 8%). The overall combined average gross profit margin was approximately 16% (2000: 13%) for the year.

Because of the Group's intimate knowledge of the different segments in the China mobile market, which differs from region to region, as well as a customer base that extends to all corners of the region, we consider ourselves a market leader by adopting sales strategies which are unique to the rest of the market. The Group has the ability to extend the life cycle of the mobile phones under its distribution, such as the SGH-600 and SGH-800 models, for 2 to 3 years, which is well above the industry norm of nine to twelve months.

** Research conducted by GfK Marketing Services Ltd., August 2001*

With the current batch of latest Samsung models having only been introduced during the second half of this year, and with newer, trendier models to be introduced, the Group is confident of its prospects in the next few years in achieving sustainable turnovers and gross profit.

An indication of the product/sale-profit contribution mix can be analysed as follows:

The sales volume contribution of newly introduced models was 0.8 million units, representing approximately 30% of total unit sales for the year, while models introduced in the previous years had contributed to the remaining total unit sales for the year.

Sales value of new models introduced this year was approximately HK$2.0 billion while models introduced in the previous year contributed approximately HK$2.3 billion in sales. The Group is expected to maximise the returns on the newly introduced models next year, especially with the SGH-A288, SGH-N188 models, which will see a lot more profit and volume contributions.

Retail Operations

The Group's retail operation turned over sales of HK$35 million during the year. The Group opened two Samsung brand shops in Hong Kong in February and May 2001. With the current economic condition, the Group is particularly pleased with the performance of these retail outlets as they are already contributing to the Group's results. The brand shops proved to be popular especially with the launch of new Samsung models, in many cases, advance orders had been placed by retail customers for hit models well in advance of the official launch date. Although the Hong Kong retail market is generally tough, our retail outlets have been very successful and we are quietly confident of seeing through the poor economic conditions especially with the introduction of new models and our corporate sales programs.

The Samsung brand shops allow us to provide an outlet for Samsung customers and to control the retail prices in the market for Samsung phones. It is also an avenue for us where we can initiate our marketing efforts. These shops are also examples of how the Group can be successful in retailing whilst fostering closer relations with our suppliers and our commitment to being a value added distributor.

Group's Liquidity, Financial and Working Capital Resources

The current ratio and liquid ratio of the Group increased from 1.50 to 2.09 and 1.22 to 1.55, respectively, due mainly to the increase in cash inflow of funds from operations from a deficit of HK$144 million in the previous year to positive of HK$302 million this year.

The accounts receivables of the Group rose from HK$484 million to HK$747 million. Days receivables rose from 29 days to 51 days. The Group had experienced significant growth in the past two to three years in terms of sales and volume turnover. Supporting this growth was the ability of the Group to adopt marketing strategies that extends the life of mobile phones coming under our distributorship and obtaining the exclusive distribution rights to new mobile phone models. The contributing factor leading to the increase in accounts receivable balance over the previous year was the growth in sales achieved in the latter half of the year. The Group sold over HK$1.5 billion (2000: HK$960 million) of mobile phones during the last quarter of the year, fuelled mainly by the introduction of new model popular handsets such as the SGH-A288, SGH-N288 and SGH-N188 in the second half of the year. It is also worthnoting that the average cost of these mobile phones are over one-third more expensive than the products sold in the same period last year, thus increasing the value of receivables.

The Group's ageing profile of receivables shows that over 95% (2000: 83%) of receivables at year end were within the 90 days credit period. Trade receivables over three months have fallen 56% to approximately HK$39 million (2000: HK$87 million). The normal credit period granted to the Group's customers is up to a period of 90 days, except for certain creditworthy customers, as approved by senior management of the Group, of which slightly longer credit period may be given. The Group's trade credit facilities with its creditors are up to a period of 120 days.

With the Group's sales picking up over the latter half of the year, inventory level was HK$596 million (2000: HK$334 million) while inventory days rose from an average of 21 days to 46 days. The contributing factors leading to the increase in inventory levels were mainly because of the introduction of new model handsets during the second half of the year fuelling demand for these mobile phones. These mobile phones, including the SGH-A288, SGH-N288 and SGH-N188 models, made up approximately 92% of total stock at year end. The remaining inventories were made up of mainly popular models such as the SGH-600 and SGH-800 which the Group had sold on average over 100,000 units each month for the last quarter of this year. In comparing the stock held at the end of last year, the average cost of these phones were approximately HK$465 per unit or 34% more expensive due mainly to the majority composition of latest model mobile phones. In addition, the Group was also required to maintain inventory for three regions: Mainland China, Hong Kong and Taiwan while last year's inventory included Mainland China and Hong Kong stocks only.

During the year, the Group taped into the debt market and raised a syndicated bank loan of approximately HK$280 million which is denominated in HK$191 million and US$11.5 million. As a result, the gearing ratio* of the Group was approximately 11.7% as at 30th September, 2001 (2000: 0.05%.)

The bank loan has a term of three years beginning in September 2001, with deferred quarterly repayments beginning 21 months after the initial drawdown. The bank loan is unsecured and interest bearing at 3-month HIBOR + 1.5% per annum.

*(Gearing ratio = Longterm debts over total assets)

Although the Group can be 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, management believes that with the funds raised, under the current corporate structure and in the current low interest rate environment, it will further capitalise on the rapid growth of the telecommunications market in China. Just as it did with the equity fund raised from our IPO more than two years ago. The Group believes that additional financing will enable the Group to increase its working capital base to enable it to explore opportunities and provide flexibility in our sales of strategies which will enable us to increase volume sales of higher margain premium products and maximise profits.

Certain bankers of the Group require the Group to place cash deposits as collateral for banking facilities used for the purchase of inventory. As at the year end, the Group's pledged cash was approximately HK$318 million, or 37% of total cash of approximately HK$869 million. This represented a reduction in pledged cash by 58% from the prior year's balance of approximately HK$753 million, or 88% of total cash of HK$861 million. During the year, the Group also raised a syndicated unsecured trade facility totalling HK$220 million exempting the Group from any pledged deposits in respect of these facilities. As the Group's credit rating increases, it will continue to work closely with its bankers to achieve a more efficient deposit/facility ratio and to eventually reduce pledged cash to zero in the near future to improve cash efficiency and liquidity.

As at 30th September, 2001, the Group has banking facilities of approximately HK$2,306 million (2000: HK$1,474 million), of which approximately HK$1,156 million (2000: HK$1,092 million) have been utilised by the Group. Further details of the Group's banking facilities are detailed in note 23 to the accounts in the Financial Report.

Other than the syndicated bank loan of HK$280 million raised during the year, the Group's funding requirements have mainly been financed by its working capital.

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

Of the HK$280 million bank loan raised, approximately HK$89 million are denominated in the equivalent of US dollars 11.5 million. In order to hedge against potential future exchange rate fluctuation of the US dollar portion of the loan, the Group entered into a currency/interest rate Swap arrangement with a bank whereby its principal and interest obligations to US dollar portion of the loan are denominated in Hong Kong dollars at a pre-determined exchange rate and the interest rate is fixed at 3-month HIBOR + 1.5% per annum throughout the term of the loan.

The low interest rate environment presents a challenge to the Group with regard to its free cash. During the year, under direct professional management, the Group was able to diversify its investments to maximise return on its free cash by investment in foreign currencies that resulted in a net realised foreign exchange gain of approximately HK$39million. The Group will strive to continue to utilise its resources efficiently, under risk management guidelines, to maximise shareholders' wealth.

Strategic Investments

Sino Media Group (SMG) Limited ("SMG") (formerly known as Chinese Sports Program Syndicating Company Limited)

Over the year, SMG embraced the rapidly evolving marketplace and responded to the challenges through continuous and ongoing review and adaptation of business objectives. SMG has gained an elevating momentum and emerged to be an active played in one of the most promising markets, China Riding on the business opportunities arising from the 2008 Beijing Olympics, and the euphoria of China's World Cup Soccer finals campaign, the Company has successfully secured several significant management opportunities for the next few years, such as the commercial and marketing rights of the Chinese National Women's Basketball Team; the organization and promotional rights of the FIVB Volleyball World Grand Prix to be held in China and the Sino-Thai Freestyle Boxing Championship Challenge.

On sports programming, CNBN, the national broadcast sports TV program continued to maintain good ratings on the China Education Television. Backed by the support of the States Sport General administration of China and complemented by the strong media platform above, SMG is well positioned in China's sports industry.

With the explosive growth of sports marketing on the global stage, SMG is poised to reap the benefits of China's vast and relatively untapped Sports market. Over the past year, SMG has been laying the foundation for these business opportunities, the objective of achieving profitability is fully on track.

Prospects and Strategic Outlook

The Ministry of Information Industry in China expects mobile phone users to reach 300 million by year 2005 (September 2001 approximately 130 million). In the short to medium term, these figures will no doubt be a benefit to the Group in terms of replacement handset sales and will also provide opportunities in handset sales to new subscribers.

With an established customer base in China, the Group will play an important part in assisting mobile phone manufacturers to reach their intended market, provide added value in terms of branding and after market services.

The Group will continue with its core operating business in handset distribution and are already in the process of negotiating more exclusive models for distribution in the next few years. In addition, the Group is exploring opportunities with several manufacturers for distributorships.

In the near term, the Group will explore opportunities in handsets distributed under its own brand name under own design manufacturing ("ODM"). With an impressive record of marketing mobile phones, the Group believes that it will be successful in bringing its own range of mobile phone to the market.

The Group is cautious of the changes in the market and will continue with its prudent sales and marketing approach to maximise shareholders' wealth. Through sales mix, the Group is confident of both sales growth and profitability in the coming years.

With China's entry to the WTO, the Group will take a cautious approach to its retail expansion. China's ever changing environment presents a lot of challenges for new entrants and will only step into ventures when the timing and opportunity arises that ensures profitability.

Share Capital Structure

By an ordinary resolution passed at an extraordinary general meeting of the Company during the year:

(a) every ordinary share of HK$0.10 in the issued and unissued share capital of the Company was subdivided into ten ordinary shares of HK$0.01 each. The Group's earnings per share, dividend per share and share option scheme information such as the exercise price and the number of options and warrants have been adjusted for the effect of the subdivision.

(b) 527,951,988 bonus warrants, in units of HK$0.68 subscription rights, were created and issued to shareholders of the Company, to subscribe at any time from the date of issue on 27th August, 2001 to 26th August, 2004 (both dates inclusive), for shares of the Company at an initial subscription price of HK$0.68 per share (subject to adjustments). Full exercise of the subscription rights attaching to the bonus warrants at the initial subscription price of HK$0.68 per share would result in the receipt by the Company of approximately HK$359 million. It is the present intention of the Board of Directors to use the proceeds from any exercise of the subscription rights attached to the bonus warrants as general working capital.

Further information on the Company's share capital structure are detailed in notes 19 and 20 to the accounts in the Financial Report.

Contingent Liabilities

As at 30th September 2001, the Group had the following contingent liabilities:

(a) The Company and certain subsidiaries of the Group provided guarantees in favour of certain banks to secure banking facilities granted to the Company and certain subsidiaries of the Group; and

(b) Included in the terms of the sale and purchase agreement in connection with the acquisition of Calaview Asset Management Limited and SMG (the "Acquired Companies") in the previous year, the Group is liable to pay the vendor HK$35 million, contingent on the successful listing on any recognised stock exchange by any of the Acquired Companies. As at 30th September 2001, there were no plans by management to list any of the Acquired Companies and as such, no provision has been made in the accounts in respect of this obligation.

Charges on Group Assets

As at 30th September, 2001, the Group had the following charges on its assets:

(a) The leasehold land and buildings with a carrying value of HK$7.5 million (2000: HK$7.7 million) were pledged to a bank to secure banking facilities to certain subsidiaries of the Group;

(b) Fixed deposits totalling HK$318 million (2000: HK$753 million) have been placed as security for banking facilities extended to certain subsidiaries of the Group; and

(c) Debt security amounting to approximately HK$51 million (2000: Nil) have been placed as security for banking facilities extended to a certain subsidiary of the Group.

Employee Information

As at 30th September, 2001, the Group employed a workforce of 195 (2000: 104). Total staff costs including both salaries and bonuses were HK$94.6 million (2000: HK$68.5 million). Our employee remuneration packages commensurate with their respective responsibilities and competence and are comparable to other companies in similar industry. We award employees who have made outstanding contributions to the Group's success through of bonus schemes. We are also committed to training and development for our staffs.

Pursuant to a share option scheme approved by the shareholders of the Company, the board of directors of the Company may, at their discretion, invite employees, including Executive Directors of the Company, to take up options to subscriber for ordinary shares in the Company subject to the terms and conditions stipulated therein.

Further details of the share option scheme are disclosed in note 20 (a) to the accounts in the Financial Report.