

## 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, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

As a result of the adoption of the revised Hong Kong Statements of Standard Accounting Practice No. 14 "Leases", which became effective during the year, certain comparative figures have been restated accordingly.

#### (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 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 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.

#### (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.

**1. Principal accounting policies** (continued)**(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%
Computers and equipment	20 to 30%
Motor vehicles	30%

**(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, the carrying amount is reduced to the 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.

## Notes to the Accounts

### 1. Principal accounting policies (continued)

#### (f) Leased assets

##### (i) Hire purchase contracts

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 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.

##### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (g) 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.

#### (h) Club debentures

Club debentures are carried at fair value.

**1. Principal accounting policies** (continued)**(i) 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.

**(j) 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.

**(k) 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.

**(l) Translation of foreign currencies**

Transactions in foreign currencies, including investment 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.

**(m) 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.

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

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

Dividend income is recognised when the right to receive payment is established.

**(n) Retirement benefit costs**

The Group's contributions to the Mandatory Provident Fund Scheme are charged to the profit and loss account.

**(o) Borrowing costs**

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

## Notes to the Accounts

## 2. Turnover, revenues and segment information

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Sale of goods	4,369,111	4,066,726
Other	3,470	-
	4,372,581	4,066,726
Other revenues		
Interest income	33,846	51,847
Commission income	2,908	1,223
Service income	-	678
Dividend income from trading investments	399	-
Others	58	-
	37,211	53,748
Total revenues	4,409,792	4,120,474

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

	Turnover		Operating profit/(loss)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Trading of telecommunications products	4,369,111	4,066,726	560,287	464,885
Other operation	3,470	-	(20,531)	(4,473)
	4,372,581	4,066,726	539,756	460,412
Principal markets:				
Mainland China	3,804,622	3,364,274	487,898	384,889
Hong Kong and Macau	467,033	702,452	38,915	75,523
Taiwan	100,926	-	12,943	-
	4,372,581	4,066,726	539,756	460,412

**3. Operating profit**

	<b>2001</b> <b>HK\$'000</b>	<b>Group</b> <b>2000</b> <b>HK\$'000</b>
Operating profit is stated after crediting and charging the following:		
Crediting		
Gain on disposal of trading investments	<b>1,147</b>	2,584
Gain on disposal of fixed assets	–	36
Realised exchange gain on investment in foreign currency	<b>39,482</b>	–
Charging		
Auditors' remuneration	<b>947</b>	947
Bad debts written off	<b>2,093</b>	–
Cost of inventories sold	<b>3,642,937</b>	3,509,159
Depreciation of owned fixed assets	<b>4,645</b>	2,560
Depreciation on fixed assets held under hire purchase contracts	<b>64</b>	7
Exchange loss	<b>2,115</b>	2,226
Impairment on investment securities	<b>21,803</b>	–
Loss on disposal of fixed assets	<b>2,968</b>	–
Net unrealised loss on trading investments	<b>4,402</b>	7,412
Operating lease on land and buildings	<b>15,260</b>	3,365
Provision for bad and doubtful debts	<b>17,331</b>	8,500
Provision for slow-moving inventories	<b>10,000</b>	–
Retirement benefit costs	<b>394</b>	–
Staff costs including directors' remuneration	<b>94,613</b>	68,482

**4. Finance costs**

	<b>2001</b> <b>HK\$'000</b>	<b>Group</b> <b>2000</b> <b>HK\$'000</b>
Interest on bank loan wholly repayable within five years	<b>502</b>	134
Interest element of hire purchase contracts	<b>27</b>	14
	<b>529</b>	148

## Notes to the Accounts

## 5. Taxation

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax (note (i))	36,780	27,789
Overseas taxation (note (ii))	47,720	39,083
	<b>84,500</b>	66,872

- (i) Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits of subsidiaries 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% (2000: 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\$182,591,000 (2000: HK\$190,611,000).

## 7. Dividends

	Group	
	2001 HK\$'000	2000 HK\$'000
Interim, paid, by the Company of HK\$0.017* (2000: HK\$0.016*) per ordinary share	78,446	70,904
Final, proposed, by the Company of HK\$0.020* (2000: HK\$0.022*) per ordinary share	95,046	100,628
	<b>173,492</b>	171,532

\* The dividend per share has been adjusted for the effect of the share subdivision as mentioned in note 19(c) to the accounts.

The proposed final dividend of HK\$95,046,000 for the year ended 30th September, 2001 is calculated based on 4,751,873,117 shares in issue as at 30th September, 2001 and an additional 427,302 ordinary shares issued upon the exercise of warrants as mentioned in note 19(e) to the accounts.

## 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\$475,308,000 (2000: HK\$394,637,000).

The basic earnings per share is based on the weighted average of 4,610,861,287 (2000: 4,278,895,678) ordinary shares in issue during the year on the assumption that the subdivision of 1 share of HK\$0.10 each into 10 shares of HK\$0.01 each (note 19(c) to the accounts) had been completed on 1st October, 1999.

The fully diluted earnings per share is based on 4,867,609,203 (2000: 4,467,495,410) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 256,747,916 (2000: 188,599,730) ordinary shares deemed to be issued at no consideration if all outstanding warrants and options had been exercised, and on the assumption that the subdivision of 1 share of HK\$0.10 each into 10 shares of HK\$0.01 each (note 19(c) to the accounts) had been completed on 1st October, 1999.

## 9. Directors' and senior managements' emoluments

### (a) Directors' remuneration

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

	2001 HK\$'000	Group 2000 HK\$'000
Independent Non-executive Directors fees	338	300
Executive Directors		
Basic salaries and allowances	6,343	5,660
Contributions to retirement fund	238	-
Discretionary bonuses	53,514	50,000
	60,433	55,960

During the year, certain Directors of the Company had exercised their share options to subscribe for total of 100,000,000 and 17,000,000 ordinary shares of HK\$0.01 each of the Company (after the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts) at an exercise price of HK\$0.150 and HK\$0.151 per share respectively. The closing market prices of the Company's share at the respective exercise dates were as follows:

Date of exercise	Number of share options exercised	Exercise price HK\$	Closing market price HK\$
5th October, 2000	30,000,000	0.150	0.865
30th March, 2001	30,000,000	0.150	0.630
15th August, 2001	7,000,000	0.151	0.520
20th August, 2001	10,000,000	0.151	0.515
20th August, 2001	40,000,000	0.150	0.515

The exercise price and closing market price of shares and number of share options above are after the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts.



## Notes to the Accounts

**9. Directors' and senior managements' emoluments** (continued)**(a) Directors' remuneration** (continued)

As at 30th September, 2001, the outstanding options granted by the Company to the Executive Directors of the Company were as follows:

Date of grant	Exercise price HK\$	Exercisable period	Number of ordinary shares eligible for subscription under the share options
26th April, 1999	0.150	25th May, 1999 to 24th May, 2009	100,000,000

All the price of shares and number of share options above are after the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts.

The closing market price of the Company's shares as at 30th September, 2001 was HK\$0.52 per share.

Apart from the aforesaid, no other emoluments have been paid to the Directors for the years ended 30th September, 2001 and 2000.

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

Directors' emoluments	Number of directors	
	2001	2000
Nil to HK\$1,000,000	2	2
HK\$7,500,001 to HK\$8,500,000	1	1
HK\$9,500,001 to HK\$10,500,000	-	1
HK\$10,500,001 to HK\$11,500,000	2	1
HK\$26,000,001 to HK\$27,000,000	-	1
HK\$28,000,001 to HK\$29,000,000	1	-

No Directors have waived emoluments for the years ended 30th September, 2001 and 2000.

During the year, no amounts have been paid by the Group to the Directors as inducement to join the Group or as compensation for loss of office (2000: Nil).

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four Directors (2000: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2000: one) individual during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Basic salaries and allowances	817	413
Contributions to retirement fund	35	-
Bonuses	114	42
	966	455

The emoluments of the individual fall within the following bands:

	Number of individuals	
	2001	2000
Nil to HK\$1,000,000	1	1

**10. Fixed assets****Group**

	<b>Leasehold land and buildings HK\$'000</b>	<b>Leasehold improve- ments HK\$'000</b>	<b>Furniture and fixtures HK\$'000</b>	<b>Computers and equipment HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
Cost or valuation						
At 1st October, 2000	8,000	3,316	3,440	8,095	4,682	27,533
Additions	-	901	1,696	3,180	617	6,394
Disposals	-	(2,747)	(932)	(1,769)	-	(5,448)
At 30th September, 2001	8,000	1,470	4,204	9,506	5,299	28,479
Accumulated depreciation						
At 1st October, 2000	311	746	1,980	1,854	882	5,773
Charge for the year	160	266	627	2,093	1,563	4,709
Disposals	-	(599)	(255)	(510)	-	(1,364)
At 30th September, 2001	471	413	2,352	3,437	2,445	9,118
<b>Net book value</b>						
<b>At 30th September, 2001</b>	<b>7,529</b>	<b>1,057</b>	<b>1,852</b>	<b>6,069</b>	<b>2,854</b>	<b>19,361</b>
At 30th September, 2000	7,689	2,570	1,460	6,241	3,800	21,760

The analysis of the cost or valuation at 30th September, 2001 of the above assets is as follows:-

	<b>Leasehold land and buildings HK\$'000</b>	<b>Leasehold improve- ments HK\$'000</b>	<b>Furniture and fixtures HK\$'000</b>	<b>Computer and equipment HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
At cost	-	1,470	4,204	9,506	5,299	20,479
At 1999 professional valuation	8,000	-	-	-	-	8,000
	<b>8,000</b>	<b>1,470</b>	<b>4,204</b>	<b>9,506</b>	<b>5,299</b>	<b>28,479</b>

- (i) Leasehold land and buildings are situated in Hong Kong under long leases. The leasehold land and buildings are pledged to a bank to secure banking facilities granted to certain subsidiaries of the Group (note 23 to the accounts).
- (ii) Leasehold land and buildings were revalued on an open market value basis as at 31st January, 1999 by DTZ Debenham Tie Leung, an independent firm of professional valuers. The revaluation of the leasehold land and buildings does not constitute a timing difference for tax purposes.
- (iii) The carrying amount of the leasehold land and buildings that would be included in the accounts had they been carried at cost less depreciation is HK\$10,179,000 (2000: HK\$10,406,000).
- (iv) At 30th September, 2001, net book value of fixed assets held by the Group under hire purchase contracts amounted to approximately HK\$268,000 (2000: HK\$224,000).

## Notes to the Accounts

**10. Fixed assets** (continued)**Company**

	<b>Motor vehicles HK\$'000</b>
Cost	
At 1st October, 2000 and 30th September, 2001	1,794
Accumulated depreciation	
At 1st October, 2000	90
Charge for the year	538
At 30th September, 2001	628
<b>Net book value</b>	
<b>At 30th September, 2001</b>	<b>1,166</b>
At 30th September, 2000	1,704

**11. Subsidiaries**

	<b>Company</b>	
	<b>2001 HK\$'000</b>	2000 HK\$'000
Unlisted shares, at cost	<b>191,093</b>	191,093
Due from subsidiaries	<b>709,117</b>	371,051
	<b>900,210</b>	562,144

- (a) Details of principal subsidiaries are set out in note 26 to the accounts.
- (b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**12. Jointly controlled entity**

	<b>2001</b> <b>HK\$'000</b>	<b>Group</b> <b>2000</b> <b>HK\$'000</b>
Unlisted investment, at cost	<b>2,797</b>	2,797
Share of post-acquisition loss and exchange differences	<b>(794)</b>	(604)
Share of net assets	<b>2,003</b>	2,193

<b>Name</b>	<b>Place of establishment and operation</b>	<b>Principal activities</b>	<b>Percentage of interest</b>
Shenzhen Kejian Samsung Mobile Communication Technology Co., Ltd. ("SKSMCT")	The People's Republic of China	Research and development on mobile phone technologies	30%

SKSMCT was established as an equity joint venture company with a joint venture period of 5 years. SKSMCT has a financial accounting period of 31st December which is not coterminous with the Group.

**13. Investment securities**

	<b>2001</b> <b>HK\$'000</b>	<b>Group</b> <b>2000</b> <b>HK\$'000</b>
Equity securities, at fair value:		
Listed overseas	<b>1,110</b>	4,225
Unlisted		
Hong Kong	<b>55,852</b>	55,852
Overseas	<b>-</b>	7,803
	<b>55,852</b>	63,655
	<b>56,962</b>	67,880
Market value of overseas listed equity securities	<b>1,110</b>	4,225

The revaluation of investment securities does not constitute a timing difference for tax purposes.

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## 14. Inventories

	2001 HK\$'000	Group 2000 HK\$'000
Merchandise, at cost	605,605	334,408
Less: Provision	(10,000)	-
	595,605	334,408

## 15. Trading investments

	2001 HK\$'000	Group 2000 HK\$'000
Listed equity securities, at fair value:		
Hong Kong	11,424	27,958
Unlisted debt securities, at fair value:		
Hong Kong	50,980	7,788
Overseas	-	15,242
	50,980	23,030
	62,404	50,988
Market value of Hong Kong listed equity securities	11,424	27,958

## 16. Trade receivables

As at 30th September, 2001 the ageing analysis of the trade receivables was analysed as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Within 30 days	391,648	247,883
31 - 60 days	238,728	125,262
61 - 90 days	105,725	43,966
Over 90 days	38,626	87,152
Less: provision	(28,128)	(20,620)
	746,599	483,643

The normal credit period granted to the customers of the Group is up to 90 days, except for sales made to certain creditworthy customers as approved by senior management of the Company of which a slightly longer credit period may be granted.

## Notes to the Accounts

## 17. Trade and bills payables

	Group	
	2001 HK\$'000	2000 HK\$'000
Trade payables	105,413	121,582
Bills payables	651,216	676,400
	756,629	797,982

Trade and bills payables of the Group as at 30th September, 2001 are normally required to be settled within 120 days (2000: 90 days). All of the trade payables of the Group as at 30th September, 2001 and 2000 were aged less than 30 days.

## 18. Long-term liabilities

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Long-term bank loans repayable:	18(a) & 23		
Within one year		325	325
In the second year		93,891	325
In the third to fifth year		187,208	402
		281,424	1,052
Obligations under hire purchase contracts repayable:			
Within one year		73	76
In the second year		73	253
In the third to fifth year		155	-
Less: future finance charges on hire purchase contracts		(76)	(79)
	18(b)	225	250
Deferred taxation	18(c)	131	131
Total long-term liabilities		281,780	1,433
Less: amount repayable within one year		(375)	(370)
		281,405	1,063

	Note	Company	
		2001 HK\$'000	2000 HK\$'000
Long-term bank loans repayable:	18(d)		
In the second year		93,566	-
In the third to fifth year		187,131	-
		280,697	-

## Notes to the Accounts

**18. Long-term liabilities** (continued)

- (a) Included in the long-term bank loans is a balance of approximately HK\$727,000 (2000: HK\$1,052,000) which is secured by the leasehold land and buildings of the Group. The remaining balance of HK\$280,697,000 (2000: Nil) is secured by a corporate guarantee given by a subsidiary of the Company.
- (b) The present value of obligations under hire purchase contracts is as follows:

	<b>Group</b>	
	<b>2001 HK\$'000</b>	<b>2000 HK\$'000</b>
Within one year	<b>50</b>	45
In the second year	<b>54</b>	205
In the third to fifth year	<b>121</b>	-
	<b>225</b>	250

- (c) The deferred taxation was provided for accelerated depreciation allowances of the Group. There was no material unprovided deferred taxation for the year.
- (d) The balance is secured by a corporate guarantee given by a subsidiary of the Company.

**19. Share capital – Company**

	<b>Authorised</b>			
	<b>Ordinary shares of HK\$0.01 each</b>		<b>Ordinary shares of HK\$0.10 each</b>	
	<b>No. of shares '000</b>	<b>HK\$'000</b>	<b>No. of shares '000</b>	<b>HK\$'000</b>
At 1st October, 2000	-	-	2,000,000	200,000
Subdivision of each share of HK\$0.10 each into ten shares of HK\$0.01 each (note c)	20,000,000	200,000	(2,000,000)	(200,000)
<b>At 30th September, 2001</b>	<b>20,000,000</b>	<b>200,000</b>	<b>-</b>	<b>-</b>

**19. Share capital – Company** (continued)

	Issued and fully paid			
	Ordinary shares of HK\$0.01 each		Ordinary shares of HK\$0.10 each	
	No. of shares		No. of shares	
	'000	HK\$'000	'000	HK\$'000
At 1st October, 1999	-	-	403,530	40,353
Issue of shares	-	-	10,000	1,000
Exercise of warrants	-	-	37,957	3,795
Exercise of options	-	-	4,400	440
Repurchase of shares	-	-	(1,604)	(160)
At 30th September, 2000	-	-	454,283	45,428
At 1st October, 2000	-	-	454,283	45,428
Exercise of warrants (note a)	-	-	1,074	107
Exercise of options (note b)	-	-	19,800	1,980
Subdivision of each share of HK\$0.10 each into ten shares of HK\$0.01 each (note c)	4,751,568	47,515	(475,157)	(47,515)
Exercise of warrants (note d)	305	3	-	-
<b>At 30th September, 2001</b>	<b>4,751,873</b>	<b>47,518</b>	<b>-</b>	<b>-</b>

- (a) During the period from 1st October, 2000 to 21st August, 2001, 1,073,600 ordinary shares of HK\$0.10 each of the Company (before the adjustment for the effect of share subdivision as mentioned in note 19(c) below) were issued at the subscription price of HK\$2.34 per share to certain warrant holders on the exercise of their warrants at a total cash consideration of approximately HK\$2,512,000 (note 20(b) to the accounts).
- (b) During the period from 1st October, 2000 to 21st August, 2001, 18,000,000, 1,700,000 and 100,000 ordinary shares of HK\$0.10 each of the company (before the adjustment for the effect of share subdivision as mentioned in note 19(c) below) were issued at subscription price of HK\$1.50, HK\$1.51 and HK\$7.15 per share respectively to certain share option holders on the exercise of their share options at a total consideration of HK\$30,282,000.
- (c) By an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 22nd August, 2001, every ordinary share of HK\$0.10 in the issued and unissued share capital of the Company is subdivided into ten ordinary shares of HK\$0.01 each.
- (d) During the period from 22nd August, 2001 to 30th September, 2001, 305,217 ordinary shares of HK\$0.01 each of the Company (after the adjustment for the effect of share subdivision as mentioned in note 19(c) above) were issued at a price of HK\$0.23 per share to certain warrant holders on the exercise of their warrants at a total cash consideration of approximately HK\$70,000.
- (e) Subsequent to the year end, 427,302 ordinary shares of HK\$0.01 each of the Company (after the adjustment for the effect of share subdivision as mentioned in note 19(c) above) were issued at a price of HK\$0.23 per share to the warrant holders on the exercise of their warrants at a total cash consideration of approximately HK\$98,000.



## Notes to the Accounts

## 20. Share options and warrants

## (a) Share options

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

Details of share options granted by the Company pursuant to the share option scheme and the options outstanding as at 30th September, 2001 were as follows:-

Date of grant	Exercise price* HK\$	Exercisable period	Balance outstanding as at 1st October, 2000*	Share options granted during the year*	Share options exercised during the year*	Share options lapsed during the year*	Balance outstanding as at 30th September, 2001*
<b>Executive Directors</b>							
23rd April, 1999	0.151	22nd May, 1999 to 21st May, 2009	17,000,000	-	17,000,000	-	-
26th April, 1999	0.150	25th May, 1999 to 24th May, 2009	200,000,000	-	100,000,000	-	100,000,000
<b>Employees</b>							
26th April, 1999	0.150	25th May, 1999 to 24th May, 2009	80,000,000	-	80,000,000	-	-
15th November, 2000	0.715	15th November, 2000 to 14th November, 2010	-	5,600,000	1,000,000	1,300,000#	3,300,000

\* The number of share options and the exercise price have been adjusted following the share subdivision as mentioned in note 19(c) to the accounts.

# These share options lapsed during the year upon the resignation of certain employees.

**20. Share options and warrants** (continued)**(b) Warrants**

On 31st March, 1999, the Company issued warrants ("2002 Warrants"), at nil consideration, to the Company's shareholders on that day conferring rights to subscribe for a total of 80,000,000 ordinary shares (before the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts) at the initial subscription price of HK\$2.34 per share. These 2002 Warrants are exercisable from 31st March, 1999 to 8th April, 2002, both dates inclusive. The total number of outstanding 2002 Warrants on 1st October, 2000 was 41,912,810.

During the period from 1st October, 2000 to 21st August, 2001, 1,073,600 ordinary shares of HK\$0.10 each of the Company (before the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts) were issued at the subscription price of HK\$2.34 per share to certain warrant holders on the exercise of their 2002 Warrants at a total cash consideration of approximately HK\$2,512,000 (see note 19(a)).

Upon the share subdivision on 22nd August, 2001, the exercise price of outstanding 2002 Warrants was changed from HK\$2.34 per one ordinary share of HK\$0.10 each to HK\$0.23 per one ordinary share of HK\$0.01 each. The total number of ordinary shares of the Company entitled by the outstanding 2002 Warrants on that day changed from 40,839,210 of HK\$0.10 each to 415,494,570 of HK\$0.01 each accordingly.

During the period from 22nd August, 2001 to 30th September, 2001, 305,217 ordinary shares of HK\$0.01 each (after the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts) were issued at a price of HK\$0.23 per share to certain warrant holders on the exercise of their 2002 Warrants (see note 19(d)).

On 27th August, 2001, the Company issued warrants ("2004 Warrants"), at nil consideration, to the Company's shareholders on that day conferring rights to subscribe for a total of 527,951,988 ordinary shares of HK\$0.01 each (after the adjustment for the effect of share subdivision as mentioned in note 19(c) to the accounts) at the initial subscription price of HK\$0.68 per share. These 2004 Warrants are exercisable from 27th August, 2001 to 26th August, 2004, both dates inclusive. None of the 2004 Warrants were exercised up to 30th September, 2001.

As at 30th September, 2001, the Company had outstanding 415,189,353 2002 Warrants and 527,951,988 2004 Warrants, amounting to approximately HK\$95,494,000 and HK\$359,007,000, respectively. Exercise in full of such warrants would result in the issue of 943,141,341 additional ordinary shares of HK\$0.01 each in the Company.

Subsequent to the year end, 427,302 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.23 per share to the warrant holders on the exercise of their 2002 Warrants at a total cash consideration of approximately HK\$98,000.

## Notes to the Accounts

## 21. Reserves

## Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange differences HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st October, 1999	128,594	2,450	-	-	1	239,991	371,036
Issue of shares as consideration for acquisition of subsidiaries	129,000	-	-	-	-	-	129,000
Issue of shares pursuant to the exercise of warrants	85,024	-	-	-	-	-	85,024
Issue of shares pursuant to the exercise of options	6,163	-	-	-	-	-	6,163
Deficit on revaluation of investment securities	-	-	-	(11,303)	-	-	(11,303)
Goodwill eliminated	(119,554)	-	-	-	-	-	(119,554)
Repurchase of shares, including relevant expenses incurred	(12,853)	-	160	-	-	(160)	(12,853)
Exchange differences	-	-	-	-	(96)	-	(96)
Profit for the year retained	-	-	-	-	-	223,105	223,105
Additional final dividend for previous year	-	-	-	-	-	(3,497)	(3,497)
At 30th September, 2000	216,374	2,450	160	(11,303)	(95)	459,439	667,025
At 1st October, 2000	216,374	2,450	160	(11,303)	(95)	459,439	667,025
Issue of shares pursuant to the exercise of warrants (notes 19(a) and 19(d))	2,472	-	-	-	-	-	2,472
Issue of shares pursuant to the exercise of options (note 19(b))	28,302	-	-	-	-	-	28,302
Deficit on revaluation of investment securities	-	-	-	(10,918)	-	-	(10,918)
Goodwill eliminated	(672)	-	-	-	-	-	(672)
Investment revaluation reserve transferred to the profit and loss account upon impairment of investment securities	-	-	-	21,803	-	-	21,803
Exchange differences	-	-	-	-	188	-	188
Profit for the year retained	-	-	-	-	-	301,816	301,816
Additional final dividend for previous year (note (b))	-	-	-	-	-	(189)	(189)
<b>At 30th September, 2001</b>	<b>246,476</b>	<b>2,450</b>	<b>160</b>	<b>(418)</b>	<b>93</b>	<b>761,066</b>	<b>1,009,827</b>
Company and subsidiaries	246,476	2,450	160	(418)	97	761,856	1,010,621
A jointly controlled entity	-	-	-	-	(4)	(790)	(794)
<b>At 30th September, 2001</b>	<b>246,476</b>	<b>2,450</b>	<b>160</b>	<b>(418)</b>	<b>93</b>	<b>761,066</b>	<b>1,009,827</b>

**21. Reserves** (continued)**Company**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st October, 1999	319,687	-	8,651	328,338
Issue of shares as consideration for acquisition of subsidiaries	129,000	-	-	129,000
Issue of shares pursuant to the exercise of warrants	85,024	-	-	85,024
Issue of shares pursuant to the exercise of options	6,163	-	-	6,163
Repurchase of shares, including relevant expenses incurred	(12,853)	160	(160)	(12,853)
Profit for the year retained	-	-	19,079	19,079
Additional final dividend for the previous year	-	-	(3,497)	(3,497)
At 30th September, 2000	527,021	160	24,073	551,254
At 1st October, 2000	527,021	160	24,073	551,254
Issue of shares pursuant to the exercise of warrants (note 19(a) and 19(d))	2,472	-	-	2,472
Issue of shares pursuant to the exercise of options (note 19(b))	28,302	-	-	28,302
Profit for the year retained	-	-	9,099	9,099
Additional final dividend for previous year (note (b))	-	-	(189)	(189)
<b>At 30th September, 2001</b>	<b>557,795</b>	<b>160</b>	<b>32,983</b>	<b>590,938</b>

Note:

- (a) The Company had a distributable reserve, net of proposed dividend, of approximately HK\$591 million (2000: HK\$551 million) as at 30th September, 2001, represented by share premium and retained earnings of the Company. Under the Companies Law (2001 Second Revision) of the Cayman Islands, share premium of the Company is distributable to the members, subject to a solvency test.
- (b) Additional final dividend for previous year represented dividend payment for ordinary shares issued, on the date after the final dividend for previous year was declared, under the exercise of warrants.

## Notes to the Accounts

## 22. Notes to the consolidated cash flow statement

## (a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	538,978	459,723
Depreciation of owned fixed assets	4,645	2,560
Depreciation of fixed assets held under hire purchase contracts	64	7
Share of loss of a jointly controlled entity	249	541
Impairment on investment securities	21,803	-
Net unrealised loss on trading investments	4,402	7,412
Gain on disposal of trading investments	(1,147)	(2,584)
Loss/(gain) on disposal of fixed assets	2,968	(36)
Increase in inventories	(261,197)	(266,513)
Increase in trade receivables, deposits, prepayments and other receivables	(257,064)	(380,714)
(Decrease)/Increase in trade and bills payables, other payables and accrued charges	(113,350)	275,429
Decrease/(Increase) in time deposits pledged for banking facilities	434,857	(187,639)
Dividend income from trading investments	(399)	-
Interest income	(33,846)	(51,847)
Interest on bank loan	502	134
Interest element of hire purchase contracts	27	14
Realised exchange gain on investment in foreign currency	(39,482)	-
Net cash inflow/(outflow) from operating activities	302,010	(143,513)

**22. Notes to the consolidated cash flow statement** (continued)**(b) Analysis of changes in financing activities during the year**

	Share capital including share premium HK\$'000	Minority interests HK\$'000	Bank loan and obligations under hire purchase contracts HK\$'000
At 1st October, 1999	168,947	-	1,554
Shares issued for non-cash transactions (note c)	130,000	-	-
Goodwill eliminated	(119,554)	-	-
Acquisition of subsidiaries	-	(17,254)	253
Minority interests in share of loss	-	(1,786)	-
Cash inflows/(outflows) from financing	82,409	756	(505)
At 30th September, 2000	261,802	(18,284)	1,302
At 1st October, 2000	261,802	(18,284)	1,302
Goodwill eliminated	(672)	-	-
Purchase of interest in a subsidiary	-	257	-
Minority interests in share of loss	-	(20,830)	-
Cash inflow/(outflows) from financing	32,864	(758)	280,347
<b>At 30th September, 2001</b>	<b>293,994</b>	<b>(39,615)</b>	<b>281,649</b>

## Notes to the Accounts

**22. Notes to the consolidated cash flow statement** (continued)**(c) Purchase of subsidiaries**

	<b>2001 HK\$'000</b>	<b>2000 HK\$'000</b>
Net assets acquired		
Fixed assets	-	6,257
Inventories	-	4,331
Trade receivables	-	1,387
Prepayment, deposits and other receivables	-	2,809
Bank balances and cash	-	2,821
Trade payables and accrued charges	-	(10,539)
Obligations under hire purchase contracts	-	(253)
Minority shareholders' interests	-	17,254
	-	24,067
Goodwill	-	119,554
	-	143,621
Satisfied by:		
Allotment of shares	-	130,000
Offset with trade receivables	-	8,470
Cash	-	5,151
	-	143,621

Analysis of net cash outflow in respect of the purchase of subsidiaries:

	<b>2001 HK\$'000</b>	<b>2000 HK\$'000</b>
Cash consideration	-	5,151
Bank balances and cash acquired	-	(2,821)
	-	2,330

**23. Banking facilities**

- (a) As at 30th September, 2001, banking facilities of approximately HK\$2,306 million (2000: HK\$1,474 million) were granted by banks to the Group, of which approximately HK\$1,156 million (2000: HK\$1,092 million) have been utilised by the Group and were secured by the following:-
- (i) first legal charge over the Group's leasehold land and buildings in Hong Kong;
  - (ii) charges on time deposits of the Group amounting to approximately HK\$318 million (2000: HK\$753 million);
  - (iii) charge on debt security held by the Group amounting to approximately HK\$51 million (2000: Nil); and
  - (iv) corporate guarantees given by the Company and certain subsidiaries of the Group.
- (b) In addition, as part of the on-going conditions for granting banking facilities for trade finance amounting to approximately HK\$435 million (2000: HK\$202 million), included also under note 23(a) above, to the Group by a bank, two Executive Directors, Mr. SZE Tsang Fai, Johnny and Mr. SY Ethan, Timothy, have undertaken to jointly maintain beneficial holding of not less than 35% of the Company's issued shares.

**24. Contingent liabilities**

- (a) The Company provided corporate guarantees in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Group (note 23 to the accounts).
- (b) Included in the terms of the sale and purchase agreement in connection with the acquisition of Calaview Assets Management Limited and Sino Media Group (SMG) Limited (formerly known as Chinese Sports Program Syndicating Company Limited) (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 one of the Acquired Companies. As at year end, there were no plans by management to list any of the companies and as such, no provision has been made in the accounts in respect of the obligation.

**25. Commitments****(a) Operating lease commitment**

As at 30th September, 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Operating leases which expire:		
– within one year	14,624	6,617
– in the second to fifth years inclusive	12,067	1,550
	<b>26,691</b>	8,167

**(b) Other commitment**

As at 30th September, 2001, Sino Media Group (SMG) Limited, a subsidiary of the Group, had an annual license fee commitment amounting to RMB15 million (2000: RMB15 million) in the coming years up to 31st December, 2007.



## Notes to the Accounts

## 26. Principal subsidiaries

As at 30th September, 2001, the principal subsidiaries of the Company are as follows:-

Subsidiary	Country/place of incorporation/ operation	Issued and fully paid up share capital	Percentage of equity held by the Company		Principal activity
			Direct	Indirect	
Chinese Infobank Company Limited *#	The People's Republic of China	Ordinary US\$3,000,000	-	51	Television programme syndication and events management
Heng Zi International Trading (Shanghai) Co., Ltd. *#	The People's Republic of China	Registered US\$200,000	-	100	Trading of telecommunications products
New Eagle Technology Limited *#	Hong Kong	Ordinary HK\$10,000	-	100	Trading of telecommunications products
New Focus Technology Limited *#	Hong Kong	Ordinary HK\$100	-	100	Trading of telecommunications products
Prosperous Fields Limited	Niue/The People's Republic of China	Ordinary US\$1,000	-	100	Provision of liaison services to group companies
Sino Media Group (SMG) Limited (formerly known as Chinese Sports Program Syndicating Company Limited)*#	Hong Kong	Ordinary HK\$2	-	51	Television programme syndication and events management
Sun Brilliant Development Limited	Hong Kong	Ordinary HK\$2	-	100	Trading of telecommunications products
Techglory International (China) Limited	British Virgin Islands/Macau	Ordinary US\$3,000	-	100	Trading of telecommunications products
Techglory International Limited	Hong Kong	Ordinary HK\$1,388,000	-	100	Trading of telecommunications products
Wah Fai (Holdings) Limited	Hong Kong	Ordinary HK\$1,000,000	-	100	Property holding

\* These subsidiaries have financial accounting period of 31st March which are not coterminous with the Group.

# Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net liabilities of subsidiaries not audited by PricewaterhouseCoopers were not material to the Group's total net assets.

**27. Ultimate holding company**

The Directors regard Optimum Pace International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

**28. Approval of accounts**

The accounts were approved by the Board of Directors on 11th December, 2001.