Our Group has implemented a series of operational restructuring measures in 2002 in an effort to build a healthier and longer-lasting business platform to support our future growth and profitability.

Financial Highlights

During the year ended 30th September, 2002, the Group recorded a turnover of approximately HK$5.19 billion (2001: HK$4.37 billion), representing an increase of over 18.7% for the year. The Group incurred a loss of approximately HK$234 million (2001 as restated: net profit HK$355 million). The Group's loss per share was HK$0.047 (2001 as restated: earnings per share HK$0.077). The loss was attributable to the overall reduction in gross profit margin from that of 16.5% in 2001 to that of 7.0% in 2002 (including the effect of the provision of HK$257 million for slow moving stock); provision of HK$210 million for doubtful debts and HK$57 million in provision for long-term investments.

Mainland China

During the year, we continued our efforts in promoting premium products where our expertise lies. Despite continuous growth in the number of subscribers in the PRC, competition in the handset market is increasingly fierce as a result of a sharp increase in the number of suppliers. Domestic and foreign suppliers are aggressively trying to capture a bigger market share by offering cut-throat pricing at the expense of squeezing profit margin. The Group's sales account for China market amounted to approximately HK$1.5 billion (2001: HK$3.8 billion), only representing approximately 29% of the Group's total sales. During the year, we have tightened our credit policy as a precautionary measure to reduce credit risks due to intense competition in the handset industry. Furthermore, the Group decided to make a full provision of HK$210 million for doubtful debts as a matter of prudence.

Hong Kong and Taiwan

Similar to previous years, the Group continued its efforts in the premium replacement handset market in Hong Kong and Taiwan and sold to all network operators and major retail shops.

Sales in this region amounted to approximately HK$3,711 million (2001: HK$568 million) as a result of the substantial improvements in the premium replacement handset markets. With the introduction of features such as colour displays and cameras, the management is confident that the Group will achieve remarkable results in the coming financial year.

Sales Mix and Profit Margins

The Group recorded a turnover of HK$5.19 billion (2001: HK$4.37 billion). The increase in overall sales compared to the previous year was largely a result of the continual growth in the mobile handset markets and the introduction of new features, such as colour displays, MMS and camera in mobile handsets which generated demand in the replacement handset market. Overall profit margin declined to 7.0% (2001: 16.5%) as a result of keen competition from new models introduced by competitors. Trading losses were incurred on several models and an exceptional provision of HK$257 million was made for slow moving stock. We expect our profit margin to erode further due to the impending releases of new models by existing and new suppliers and the likely forced dumping of excessive inventory by some of our competitors.

Retail Operations

The Group's retail operations turned over sales of HK$67 million (2001: HK$35 million) during the year. In view of the extremely tough retail market conditions, the Group will exercise additional caution in evaluating future retail investment opportunities.

Group's Liquidity, Financial and Working Capital Resources

The current ratio and liquid ratio of the Group declined from 2.29 to 1.64 and 1.70 to 1.36 respectively mainly due to the exceptional provisions for receivables and slow moving stocks.

The accounts receivables of the Group decreased from HK$747 million to HK$675 million. The reduction in receivables was due to an exceptional provision of HK$210 million. Due to a change in the Group's credit policy, some of our customers encountered difficulties in complying with our new, tightened requirements. As a result, settlement of some debts was slow during the transitional period. We, therefore, consider it prudent to make full provision for these slow moving debt balances. Our management is confident that after the complete implementation of our new credit policy and the associated receivables restructing, the Group will continue its healthy growth in the coming years.

The inventory level was HK$408 million (2001: HK$596 million). The decrease in value of the inventory was mainly due to an exceptional provision of HK$257 million for several models of slow moving stock and a change in our inventory holding policy to reduce the maximum inventory level to the equivalent of one month's sales. In order to enhance return on our cash balances, the Group has placed HK$261 million (2001: HK$51 million) in Certificates of Deposits and principal guaranteed securities, which are pledged with banks for certain banking facilities.

As at 30th September, 2002, the Group had banking facilities of approximately HK$1,366 million (2001: HK$2,306 million), of which approximately HK$1,350 million (2001: HK$1,156 million) had been utilized by the Group. The tenures of the Group's trade credit facilities are up to a maximum of 120 days. Further details of the Group's banking facilities are given in note to the accounts in the Financial Report.

In September 2001, the Company entered into a Transferable Term Loan Agreement (the "Agreement") with certain banks (the "Banks") and borrowed approximately HK$280,697,000 which is repayable in six equal quarterly instalments starting from June 2003.

On 30th September, 2002, one of the Banks decided to withdraw its operations and business from Hong Kong and therefore transferred its participation of HK$46,000,000 in the Agreement to a wholly owned subsidiary of the Group at a consideration of HK$40,020,000. Accordingly, a gain on the early redemption of the loan of HK$5,980,000 was recognised by the Group during the current year.

The Group conducts its core business transactions mainly in 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. The Hong Kong dollar's peg with the US dollar provides a natural hedge against short-term currency fluctuations under normal trading circumstances.

The gearing ratio of the Group as at 30th September, 2002 was 9.6% (total long-term liabilities over total assets) as compared to 11.7% in the previous financial year.

Strategic Investments

Sino Media Group (SMG) Limited has failed to yield satisfactory performances according to our expectations. The management has decided to discontinue this venture and liquidate all its operations subsequent to the balance sheet date.

Prospects and Strategic Outlook

In late 2002, Samsung has commenced its mobile handset production in China. These handsets are mainly for the local Chinese market and distributed through us and other selected distributors. Cut-throat competition, caused by production over-capacities of some domestic and foreign suppliers, has squeezed profit margins of the whole mobile handset industry. In preparation for these upcoming challenges, the Group has tightened its credit and inventory policies to reduce our risks while maintaining our margin at the same time. We shall continue to exercise prudence and caution and will place greater importance on profit margin over sales volume or market share. We believe these policies and strategies serve the best interests of our shareholders to ensure return on assets can be achieved at much reduced risk.

In light of the rapid changes in the general trading environment, we are actively exploring other business opportunities with a view to diversifying our business models and to enhance profitability of the Group as a whole. For example, we may expand our businesses into telecommunication related products such as mobile PDAs. We intend to leverage on the marketing expertise we accumulated over the years to define user-friendly requirements and features, and help better steer our efforts in product development. We may also work closely with software suppliers to develop unique functions and features for the new products to enchance their added values.

Contingent Liabilities

As at 30th September, 2002, the Group had the following 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 24 to the accounts).

(b) (i) Included in the terms of the sale and purchase agreement in connection with the acquisition of Calaview Assets Limited and Sino Media Group (SMG) Limited (the "Acquired Companies") in 2000, the Group is liable to pay the vendor HK$35 million, contingent to the successful listing on any recognised stock exchange by any one of the Acquired Companies.

(ii) Sino Media Group (SMG) Limited and its wholly owned subsidiary, Chinese Infobank Company Limited (the "Companies") entered into an agreement with China Sports Film & Television Company Limited relating to the syndication of television programme on China Sports Broadcasting Network on 1st October, 1999. The Companies have made an annual license fee commitment amounting to RMB15 million for eight years from 1st January, 2000 to 31st December, 2007. As at today, the Companies have accrued but yet to settle the licence fee payable of approximately RMB15 million overdue since September 2001.

The shareholders and directors of the Acquired Companies have decided to wind up the Companies subsequent to year end and as such, the Directors of the Company are of the opinion that the contingent liabilities as mentioned in (i) and (ii) above will not be crystallised.

Charges on Group Assets

As at 30th September, 2002, the Group had the folllowing charges on its assets:-

(a) The leasehold land and buildings with a carrying value of HK$6.8 million (2001: HK$7.5 million) were pledged to a bank to secure banking facilities granted to certain subsidiaries of the Group; and

(b) Debt securities amounting to HK$261 million (2001: HK$51 million) have been placed as security for banking facilities extended to certain subsidiaries of the Group.

Employee Information

As at 30th September, 2002, the Group employed a workforce of 125 (2001: 195). Staff costs including salaries and bonuses were HK$89 million (2001: HK$95 million). The decrease in staff headcount is mainly due to outsourcing of non-core operations to improve both cost and work efficiencies. The overall workforce had been very stable during the past year and the turnover rate was below 4%.