

## 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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain leasehold land and buildings and club debentures are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and the Hong Kong Accounting Standards (collectively the "HKFRSs") which are effective for accounting periods commencing on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 30th September, 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on its results of operations and financial position.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (b) Consolidation (continued)

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Fixed assets

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

Leasehold land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed on a regular basis. In the intervening years, the directors of the Group 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 the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

##### (ii) *Depreciation*

Leasehold land and buildings are depreciated over the period of the leases or their expected useful lives to the Group, whichever is shorter, to write off their valuation less accumulated impairment losses on a straight-line basis. The principal annual rate used for this purpose is 2%.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their expected useful lives to the Group on the straight-line basis. The principal annual rates used for this purpose are:

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

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (c) Fixed assets (continued)

##### (iii) *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.

##### (iv) *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.

#### (d) Leased assets

##### (i) *Finance leases*

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

Assets held under finance leases 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.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (e) Impairment of assets

At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication that any assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying amount of the assets to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

#### (f) Club debentures

Club debentures are carried at fair value.

#### (g) Inventories

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

Cost represents the invoiced cost of inventories. 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.

#### (h) 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.

#### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

#### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

#### (l) Taxation

Income tax comprises current tax and deferred tax.

The charge for current income tax is based on the results for the year as adjusted for items that are taxable or deductible in other years or items that are never taxable or deductible. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the accounts. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

#### (m) Translation of foreign currencies

Transactions in foreign currencies during the year 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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (n) Revenue recognition

Revenue from the sales 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.

#### (o) Employee benefits

##### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

##### (ii) *Retirement benefits costs*

The Group operates a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. All contributions to the MPF scheme are charged to the profit and loss account as incurred and reduced by contributions forfeited by those employees who leave the MPF scheme prior to vesting fully in the contributions.

The Group also undertakes mandatory labour insurance schemes covering retirement benefits for its Taiwan employees as required by the Taiwan Employment Ordinance.

#### (p) Borrowing costs

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

#### (q) Segment reporting

In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (q) Segment reporting (continued)

Unallocated costs represent certain corporate expenses. Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment assets consist primarily of fixed assets, inventories, receivables, deposits, prepayments and operating cash, and mainly exclude club debentures. Segment liabilities comprise mainly of operating liabilities and exclude items such as deferred tax and certain corporate provisions and borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of goods	<b>1,194,444</b>	1,883,886
Other operations income	<b>11,730</b>	12,090
	<b>1,206,174</b>	1,895,976
Other revenues and income		
Interest income	<b>1,819</b>	474
Gain on revaluation of leasehold land and building	<b>279</b>	3,026
Compensation of legal and professional fees	<b>3,424</b>	–
Others	<b>652</b>	423
	<b>6,174</b>	3,923
Total revenues and income	<b>1,212,348</b>	1,899,899

#### Primary reporting format – business segments

The Group is principally engaged in the trading of telecommunication products. Other operations of the Group mainly comprise provision of repair services of telecommunication products.

The Group's inter-segment transactions mainly consist of provision of repair services of telecommunication products between different business segments. The transactions were entered into at similar terms as that contracted with independent third parties and were eliminated on consolidation.

## Notes to the Accounts

**2 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)****Primary reporting format – business segments (continued)**

	<b>Trading of telecommunication products 2005 HK\$'000</b>	<b>Other operations 2005 HK\$'000</b>	<b>Inter-segment elimination 2005 HK\$'000</b>	<b>Group 2005 HK\$'000</b>
Turnover from external customers	<b>1,188,257</b>	<b>17,917</b>	<b>-</b>	<b>1,206,174</b>
Inter-segment turnover	<b>-</b>	<b>3,798</b>	<b>(3,798)</b>	<b>-</b>
Total turnover	<b>1,188,257</b>	<b>21,715</b>	<b>(3,798)</b>	<b>1,206,174</b>
Segment results	<b>(121,426)</b>	<b>(2,055)</b>		<b>(123,481)</b>
Finance costs				<b>(40)</b>
Loss before taxation				<b>(123,521)</b>
Taxation				<b>(650)</b>
Loss after taxation				<b>(124,171)</b>
Loss attributable to shareholders				<b>(124,171)</b>
Segment assets	<b>606,219</b>	<b>11,696</b>		<b>617,915</b>
Club debentures				<b>12,301</b>
Other unallocated assets				<b>2,027</b>
Total assets				<b>632,243</b>
Segment liabilities	<b>97,078</b>	<b>3,114</b>		<b>100,192</b>
Unallocated liabilities				<b>123,345</b>
Total liabilities				<b>223,537</b>
Capital expenditure	<b>1,273</b>	<b>654</b>		<b>1,927</b>
Depreciation	<b>2,239</b>	<b>659</b>		<b>2,898</b>
Other non-cash expenses				<b>78,404</b>



## Notes to the Accounts

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

#### Primary reporting format – business segments (continued)

	Trading of telecommunication products 2004 HK\$'000	Other operations 2004 HK\$'000	Inter-segment elimination 2004 HK\$'000	Group 2004 HK\$'000
Turnover from external customers	1,873,921	22,055	–	1,895,976
Inter-segment turnover	–	11,809	(11,809)	–
Total turnover	1,873,921	33,864	(11,809)	1,895,976
Segment results	(167,687)	(15,438)		(183,125)
Finance costs				(336)
Loss before taxation				(183,461)
Taxation				(1,016)
Loss after taxation				(184,477)
Loss attributable to shareholders				(184,477)
Segment assets	669,713	13,256		682,969
Club debentures				12,301
Other unallocated assets				2,852
Total assets				698,122
Segment liabilities	38,674	6,510		45,184
Unallocated liabilities				122,942
Total liabilities				168,126
Capital expenditure	1,781	796		2,577
Depreciation	2,698	643		3,341
Other non-cash expenses				75,282

## Notes to the Accounts

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

#### Secondary reporting format – geographical segments

The Group has operated mainly in the following geographical areas:

- Hong Kong and Macau – trading of telecommunication products and provision of repair services of telecommunication products.
- Taiwan – trading of telecommunication products and provision of repair services of telecommunication products.

In presenting geographical segment information of the Group, shown below are the turnover from external customers, total assets and capital expenditure of each geographical segment that comprises 10% or more of the Group's respective total turnover from external customers, total assets and capital expenditure. There are no material sales and other transactions between the geographical segments.

	<b>Turnover from external customers 2005 HK\$'000</b>	<b>Total assets 2005 HK\$'000</b>	<b>Capital expenditure 2005 HK\$'000</b>
Hong Kong and Macau	<b>1,108,563</b>	<b>624,242</b>	<b>1,749</b>
Taiwan	<b>97,611</b>	<b>6,846</b>	<b>178</b>

	<b>Turnover from external customers 2004 HK\$'000</b>	<b>Total assets 2004 HK\$'000</b>	<b>Capital expenditure 2004 HK\$'000</b>
Hong Kong and Macau	1,206,754	568,018	1,973
Taiwan	643,782	114,951	604

## Notes to the Accounts

### 3 OPERATING LOSS

	Group	
	2005 HK\$'000	2004 HK\$'000
Operating loss is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on revaluation of leasehold land and building	279	3,026
Net exchange gain	4,606	6,213
<u>Charging</u>		
Auditors' remuneration – current year	1,345	1,811
– prior year	2,050	–
Cost of trading inventories sold	1,141,161	1,851,434
Provision for slow moving and net realisable values of inventories	2,739	22,140
Depreciation	2,898	3,341
Impairment of fixed assets	–	765
Loss on disposals of fixed assets	76	752
Operating lease on land and buildings	12,716	17,179
Provision for bad and doubtful debts	78,331	72,578
Retirement benefit costs (including directors' retirement benefit costs)	1,015	4,875
Staff costs including directors' emoluments (note 8)	52,291	58,487

### 4 FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	22	314
Interest element of finance leases	18	22
	40	336

## Notes to the Accounts

## 5 TAXATION

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

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Current tax		
Hong Kong profits tax ( <i>note (i)</i> )	<b>622</b>	438
Overseas taxation ( <i>note (ii)</i> )	<b>–</b>	34
	<b>622</b>	472
Deferred tax ( <i>note 19</i> )		
Current year	<b>28</b>	544
Taxation attributable to the Company and its subsidiaries	<b>650</b>	1,016

*Note:*

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits.
- (ii) Taxation on overseas profits has been provided on the estimated assessable profits for the year at the taxation rates prevailing in the countries in which the subsidiaries of the Group operate.

## Notes to the Accounts

### 5 TAXATION (CONTINUED)

The tax expenses for the year can be reconciled to loss before taxation in the consolidated profit and loss account as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Reconciliation of tax expenses		
Loss before taxation	<b>(123,521)</b>	(183,461)
Income tax at applicable tax rate of 17.5% (2004:17.5%)	<b>(21,616)</b>	(32,106)
Effect of overseas tax rates differences	–	1
Non-deductible expenses	<b>1,187</b>	4,842
Under/(Over) provision in prior years	<b>1</b>	(377)
Tax exempt revenue	<b>(5,208)</b>	(2,492)
Unrecognised tax losses	<b>11,687</b>	54,907
Unrecognised temporary differences	<b>14,580</b>	(23,809)
Utilisation of previously unrecognised tax losses	<b>(60)</b>	–
Withholding tax	–	33
Others	<b>79</b>	17
Tax expenses for the year	<b>650</b>	1,016

- (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.
- (c) In October 2002, the Inland Revenue Department of Hong Kong (the “IRD”) issued estimated assessments to certain subsidiaries of the Group in respect of their potential tax liabilities for the years of assessment from 1996/1997 to 2001/2002. The concerned subsidiaries have formally objected to the estimated assessments as, in the opinion of the Directors of the Company, these estimated assessments are incorrect. The Directors of the Company consider appropriate tax provision has already been made in the accounts (note 22 (b)).

At the request of the IRD, the Company has agreed to pay deposits totaling approximately HK\$108,000,000 by way of purchase of tax reserve certificates and payment of instalments in cash. The outcome of the objection has yet to be determined. There are possible obligations in penalty and interest arising in respect of the potential tax liabilities in the event that the objection is settled.

## Notes to the Accounts

### 6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the accounts of the Company is approximately HK\$206,228,000 (2004: HK\$10,307,000).

### 7 LOSS PER SHARE

The calculations of basic and fully diluted loss per share are based on the Group's loss attributable to shareholders of approximately HK\$124,171,000 (2004: HK\$184,477,000).

The basic loss per share is based on 5,165,973,933 (2004: 5,165,973,933) ordinary shares in issue during the year.

The computations of fully diluted loss per share for 2005 and 2004 have not assumed the exercise of the Company's options and warrants since the exercise prices were higher than the average market price of the Company's shares for the two years.

### 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The policy on directors' emoluments adopted by the Company is as follows:

##### **Executive Directors**

The emoluments of Executive Directors are determined based on the skill, knowledge, individual performance as well as the scope of responsibility and accountability of the Director in the Company, taking into consideration of the Company's performance and profitability, remuneration level of comparable companies in the industry and prevailing market conditions.

The remuneration packages of Executive Directors mainly include basic salaries and allowances, medical subsidies, pension arrangements and discretionary bonuses on performance basis.

##### **Non-executive Director**

The remuneration policy for Non-executive Directors is to ensure that the Non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective board committees. The emoluments of Non-executive Directors are determined with reference to their experience, duties and remuneration level of comparable positions in the market.

## Notes to the Accounts

### 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

#### (a) Directors' emoluments (continued)

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

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Independent Non-executive Directors' fees	<b>913</b>	1,113
Non-executive Director's fees	<b>420</b>	420
Executive Directors		
Basic salaries and allowances	<b>27,071</b>	26,788
Contributions to retirement fund	<b>1,341</b>	1,330
Discretionary bonuses	<b>—</b>	—
	<b>29,745</b>	29,651

During the year, none of the Directors of the Company had exercised their share options to subscribe ordinary shares of the Company.

As at 30th September, 2005, the outstanding options granted by the Company to an Executive Director of the Company were as follows:

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

The closing market price of the Company's shares immediately preceding to the suspension of trading at The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19th July, 2004 was HK\$0.05 per share.

## Notes to the Accounts

## 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (a) Directors' emoluments (continued)

Apart from the aforesaid, no other emoluments have been paid to the Directors for the years ended 30th September, 2005 and 2004.

The emoluments of the Directors are as follows:

Name of director	Fees HK\$'000	Basic salaries and	Contributions to retirement	Discretionary bonuses HK\$'000	2005 Total HK\$'000
		allowances HK\$'000	fund HK\$'000		
Mr. SY Ethan, Timothy	–	24,000	1,200	–	<b>25,200</b>
Mr. CHEUNG Wing Yin, Vigny Wiley	–	490	24	–	<b>514</b>
Mr. SUNG Yee Keung, Ricky	–	660	33	–	<b>693</b>
Mr. WAN Kwok Cheong	–	840	36	–	<b>876</b>
Mr. PANG Leung Ming	–	1,081	48	–	<b>1,129</b>
Mr. KO Wai Lun, Warren	420	–	–	–	<b>420</b>
Mr. Andrew David ROSS	474	–	–	–	<b>474</b>
Mr. Geoffrey William FAWCETT	332	–	–	–	<b>332</b>
Mr. Charles Robert LAWSON	107	–	–	–	<b>107</b>
	1,333	27,071	1,341	–	<b>29,745</b>

No Directors have waived emoluments for the years ended 30th September, 2005 and 2004.

During the year, no amounts have been paid by the Group to the Directors as inducement to join the Group, as compensation for loss of office or as commitment fees to existing Directors for entering into new service contracts with the Company (2004: HK\$Nil).



## Notes to the Accounts

### 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four Directors (2004: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Basic salaries and allowances	<b>960</b>	423
Contributions to retirement fund	–	13
Bonuses	–	1,500
	<b>960</b>	1,936

The emoluments of the individual fall within the following bands:

	<b>Number of individuals</b>	
	<b>2005</b>	2004
Nil to HK\$1,000,000	<b>1</b>	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	1

## Notes to the Accounts

### 9 FIXED ASSETS

#### Group

	<b>Leasehold land and building</b>	<b>Leasehold improve- ments</b>	<b>Furniture and fixtures</b>	<b>Computers and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1st October, 2004	9,200	5,942	2,166	6,303	1,820	25,431
Exchange difference	–	(3)	(5)	(1)	–	(9)
Additions	–	1,591	122	214	–	1,927
Revaluation	2,800	–	–	–	–	2,800
Disposals	–	(897)	(558)	(1,267)	–	(2,722)
At 30th September, 2005	12,000	6,633	1,725	5,249	1,820	27,427
Accumulated depreciation						
At 1st October, 2004	–	2,456	1,769	3,984	1,799	10,008
Exchange difference	–	(3)	(4)	1	–	(6)
Charge for the year	207	1,384	213	1,073	21	2,898
Revaluation	(207)	–	–	–	–	(207)
Written back on disposals	–	(897)	(521)	(980)	–	(2,398)
At 30th September, 2005	–	2,940	1,457	4,078	1,820	10,295
Net book value						
<b>At 30th September, 2005</b>	<b>12,000</b>	<b>3,693</b>	<b>268</b>	<b>1,171</b>	<b>–</b>	<b>17,132</b>
At 30th September, 2004	9,200	3,486	397	2,319	21	15,423

## Notes to the Accounts

### 9 FIXED ASSETS (CONTINUED)

#### Group (continued)

The analysis of the cost or valuation at 30th September, 2005 of the above assets is as follows:

	<b>Leasehold land and building</b>	<b>Leasehold improve- ments</b>	<b>Furniture and fixtures</b>	<b>Computers and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	–	6,633	1,725	5,249	1,820	15,427
At revaluation	12,000	–	–	–	–	12,000
	12,000	6,633	1,725	5,249	1,820	27,427

- (a) Leasehold land and building is situated in Hong Kong under long-term lease.
- (b) Leasehold land and building was revalued on an open market value basis as at 30th September, 2005 by DTZ Debenham Tie Leung, an independent firm of professional valuers. The revaluation surplus of approximately HK\$3,007,000 (2004: HK\$3,026,000) has been dealt with as follows:
- (i) a surplus of approximately HK\$279,000 has been credited to the consolidated profit and loss account (note 3 to the accounts) to reverse deficits previously debited; and
  - (ii) a surplus of approximately HK\$2,728,000 has been credited to revaluation reserve (note 18 to the accounts).
- (c) The carrying amount of the leasehold land and building that would be included in the accounts had they been carried at cost less depreciation is approximately HK\$9,275,000 (2004: HK\$9,501,000).
- (d) At 30th September, 2005, net book value of fixed assets held by the Group under finance leases amounted to approximately HK\$102,000 (2004: HK\$137,000).

## Notes to the Accounts

**10 SUBSIDIARIES**

	<b>Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>191,093</b>	191,093
Due from subsidiaries, net ( <i>note b</i> )	<b>186,620</b>	362,955
	<b>377,713</b>	554,048

- (a) Details of the principal subsidiaries are set out in note 24 to the accounts.
- (b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**11 INVENTORIES**

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Merchandise, at cost	<b>43,085</b>	170,635
Less: provision	<b>(4,055)</b>	(25,267)
	<b>39,030</b>	145,368

At 30th September, 2005, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$8,696,000 (2004: HK\$107,846,000).

## Notes to the Accounts

### 12 TRADE RECEIVABLES

As at 30th September, 2005, the ageing analysis of the trade receivables (net of specific provisions) is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Current	<b>256,773</b>	187,750
One to three months overdue	<b>35,897</b>	110,832
More than three months		
but less than twelve months overdue	<b>3,042</b>	2,055
Over twelve months overdue	<b>2,656</b>	5,668
Less: general provision	<b>(122,933)</b>	(61,686)
	<b>175,435</b>	244,619

The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers.

### 13 TRADE PAYABLES

As at 30th September, 2005, the ageing analysis of the trade payables is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Due within one month or on demand	<b>73,067</b>	13,344
Due after one month but within three months	–	–
Due after three months but within six months	–	–
	<b>73,067</b>	13,344

### 14 OTHER PAYABLES AND ACCRUED CHARGES

Included in other payables and accrued charges of the Group and the Company was an amount of approximately HK\$487,000 (2004: HK\$487,000) due to a Director of the Company. The amount was unsecured, interest free and has no fixed terms of repayment.

## Notes to the Accounts

### 15 LONG-TERM LIABILITIES

As at 30th September, 2005, the finance lease liabilities were repayable as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>49</b>	49
In the second year	<b>49</b>	49
In the third to fifth year	<b>44</b>	93
Less: future finance charges	<b>(25)</b>	(44)
Total long-term liabilities	<b>117</b>	147
Less: current portion of long-term liabilities	<b>(35)</b>	(30)
	<b>82</b>	117

The present value of finance lease liabilities is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>35</b>	30
In the second year	<b>40</b>	35
In the third to fifth year	<b>42</b>	82
	<b>117</b>	147

## Notes to the Accounts

### 16 SHARE CAPITAL

	<b>Authorised Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	
	'000	HK\$'000
At 1st October, 2004 and 30th September, 2005	20,000,000	200,000

	<b>Issued and fully paid Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	
	'000	HK\$'000
At 1st October, 2004 and 30th September, 2005	5,165,974	51,659

### 17 SHARE OPTIONS

On 16th March, 1999, the Company adopted a share option scheme for employees (the "Old Scheme") pursuant to which employees, including executive directors of the Group, were given opportunity to obtain equity holdings in the Company. The Old Scheme was subsequently terminated at the annual general meeting of the Company held on 27th March, 2003 whereby a new share option scheme (the "New Scheme") was adopted in compliance with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Any share options which were granted under the Old Scheme prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

A summary of the Old Scheme and the New Scheme is set out as follows:

	<b>Old Scheme</b>	<b>New Scheme</b>
Purpose of the schemes	As incentive to employees, including executive directors, of the Company or its subsidiaries	As incentive to employees and directors of the Company or its subsidiaries and other eligible persons who have made contribution to the Group

## Notes to the Accounts

**17 SHARE OPTIONS (CONTINUED)**

	<b>Old Scheme</b>	<b>New Scheme</b>
Participants of the schemes	Full-time employees, including executive directors, of the Company or its subsidiaries	Full-time or part-time employees, including directors, of the Company or its subsidiaries; advisers, consultants, suppliers and agents to the Company or its subsidiaries and such other persons who, at the sole determination of the Board of Directors, have contributed to the Group
Total number of shares available for issue under the schemes and percentage of issued share capital as at the date of this annual report	The Company had granted share options representing the rights to subscribe for 101,800,000 shares of the Company under the Old Scheme, representing approximately 1.97% of the shares in issue as at the date of this report. No further options will be granted under the Old Scheme	No share option had been granted under the New Scheme. The Company may grant share options to subscribe for 516,597,393 shares of the Company, representing approximately 10.00% of the shares in issue as at the date of this report
Maximum entitlement of each participant under the schemes	25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders in general meeting



## Notes to the Accounts

### 17 SHARE OPTIONS (CONTINUED)

	Old Scheme	New Scheme
The period within which the shares must be taken up under an option	At any time during a period to be notified by the Board of Directors, which period not to exceed 10 years commencing on the date on which the option is accepted and expiring on a day not later than the last day of the 10-year period	At any time during a period to be notified by the Board of Directors, which period not to exceed 10 years commencing on the date on which the option is accepted and expiring on a day not later than the last day of the 10-year period
The minimum period for which an option must be held before it can be exercised	None	None
The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	HK\$1.00 is to be paid as consideration for the grant of option within 30 days from the date of offer	HK\$1.00 is to be paid as consideration for the grant of option within 30 days from the date of offer

## Notes to the Accounts

**17 SHARE OPTIONS (CONTINUED)**

	<b>Old Scheme</b>	<b>New Scheme</b>
The basis of determining the exercise price	<p>The exercise price shall be determined by the Board of Directors but shall not be less than the higher of:</p> <ul style="list-style-type: none"> <li>(a) 80% of the average of the official closing price of the shares as stated in the daily quotations sheets of Stock Exchange for the 5 trading days immediately preceding the date of offer; and</li> <li>(b) the nominal value of a share</li> </ul>	<p>The exercise price shall be determined by the Board of Directors but shall not be less than the highest of:</p> <ul style="list-style-type: none"> <li>(a) the official closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer;</li> <li>(b) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer; and</li> <li>(c) the nominal value of a share</li> </ul>
The remaining life of the schemes	<p>The Old Scheme would have been valid and effective for a period of 10 years commencing on the adoption date on 16th March, 1999. The Old Scheme was terminated by a shareholders' resolution on 27th March, 2003</p>	<p>The New Scheme shall be valid and effective for a period of 10 years commencing on the adoption date on 27th March, 2003</p>

## Notes to the Accounts

### 17 SHARE OPTIONS (CONTINUED)

Details of the share options outstanding as at 30th September, 2005 which were granted under the Old Scheme are as follows:

<b>Grantees</b>	<b>Date of grant</b>	<b>Exercise price per share HK\$</b>	<b>Exercise period</b>	<b>Balance outstanding as at 1st October, 2004 and 30th September, 2005</b>
Executive Director, Mr. SY Ethan, Timothy	26th April, 1999	0.150	25th May, 1999 to 24th May, 2009	100,000,000
Employees	15th November, 2000	0.715	15th November, 2000 to 14th November, 2010	1,800,000

The financial impact of the share options granted under the Old Scheme will not be recorded in the Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares in the Company issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which lapsed prior to their exercise date are reduced from the number of outstanding options.

No share option had been granted, exercised, cancelled or lapsed under the Old Scheme during the financial year.

No share option had been granted under the New Scheme since its adoption.

## Notes to the Accounts

## 18 RESERVES

## GROUP

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange difference reserve HK\$'000	Retained earnings/ (Accumulated loss) HK\$'000	Total HK\$'000
At 1st October, 2003	457,804	2,450	160	–	101	197,780	658,295
Exchange differences	–	–	–	–	4,519	–	4,519
Loss for the year	–	–	–	–	–	(184,477)	(184,477)
At 30th September, 2004	457,804	2,450	160	–	4,620	13,303	478,337
Company and subsidiaries	457,804	2,450	160	–	4,620	13,303	478,337
At 30th September, 2004	457,804	2,450	160	–	4,620	13,303	478,337
At 1st October, 2004	457,804	2,450	160	–	4,620	13,303	478,337
Exchange differences	–	–	–	–	420	–	420
Revaluation	–	–	–	2,728	–	–	2,728
Deferred tax charged	–	–	–	(267)	–	–	(267)
Loss for the year	–	–	–	–	–	(124,171)	(124,171)
<b>At 30th September, 2005</b>	<b>457,804</b>	<b>2,450</b>	<b>160</b>	<b>2,461</b>	<b>5,040</b>	<b>(110,868)</b>	<b>357,047</b>
Company and subsidiaries	457,804	2,450	160	2,461	5,040	(110,868)	357,047
<b>At 30th September, 2005</b>	<b>457,804</b>	<b>2,450</b>	<b>160</b>	<b>2,461</b>	<b>5,040</b>	<b>(110,868)</b>	<b>357,047</b>

## Notes to the Accounts

### 18 RESERVES (CONTINUED)

#### COMPANY

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange difference reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 1st October, 2003	648,897	160	17	(102,930)	546,144
Exchange differences	–	–	(221)	–	(221)
Loss for the year	–	–	–	(10,307)	(10,307)
At 30th September, 2004	648,897	160	(204)	(113,237)	535,616
At 1st October, 2004	648,897	160	(204)	(113,237)	535,616
Exchange differences	–	–	(235)	–	(235)
Loss for the year	–	–	–	(206,228)	(206,228)
<b>At 30th September, 2005</b>	<b>648,897</b>	<b>160</b>	<b>(439)</b>	<b>(319,465)</b>	<b>329,153</b>

Note:

The Company has a distributable reserve, of approximately HK\$329,000,000 as at 30th September, 2005 (2004: HK\$536,000,000), represented by share premium less accumulated losses 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.

### 19 DEFERRED TAX

As at 30th September, 2005, the movement of recognised deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation		Revaluation of properties		Unrealised loss		Group	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At 1st October	–	41	335	90	340	–	675	131
Charged/(credited) to profit and loss account	–	(41)	28	245	–	340	28	544
Charged to reserve	–	–	267	–	–	–	267	–
<b>At 30th September</b>	<b>–</b>	<b>–</b>	<b>630</b>	<b>335</b>	<b>340</b>	<b>340</b>	<b>970</b>	<b>675</b>

The Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$89,863,000 (2004: HK\$76,778,000).

## Notes to the Accounts

### 20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash inflow/(outflow) from operating activities:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Loss before taxation	<b>(123,521)</b>	(183,461)
Adjustments for:		
Gain on revaluation of leasehold land and building	<b>(279)</b>	(3,026)
Depreciation	<b>2,898</b>	3,341
Impairment of fixed assets	<b>–</b>	765
Loss on disposals of fixed assets	<b>76</b>	752
Interest income	<b>(1,819)</b>	(474)
Interest expense	<b>40</b>	336
Operating loss before working capital changes	<b>(122,605)</b>	(181,767)
Decrease/(Increase) in inventories	<b>106,338</b>	(9,192)
Decrease in trade receivables, deposits, prepayments and other receivables	<b>105,006</b>	174,730
Increase/(Decrease) in trade payables, other payables and accrued charges	<b>55,756</b>	(52,316)
Cash generated from/(used in) operating activities	<b>144,495</b>	(68,545)
Interest expense	<b>(40)</b>	(336)
Tax paid	<b>(1,191)</b>	(2,176)
Net cash inflow/(outflow) from operating activities	<b>143,264</b>	(71,057)

### 21 BANKING FACILITIES

As at 30th September, 2005, no banking facilities (2004: HK\$174,000,000 which were not utilized) were maintained by the Group, and there were no charges against any Group's assets.

## Notes to the Accounts

### 22 CONTINGENT LIABILITIES

- (a) Included in the terms of the sale and purchase agreement in connection with the acquisition of Calaview Assets Limited and SMG (the "Acquired Companies") in 2000, the Group is liable to pay the vendor approximately HK\$35,000,000, contingent on the successful listing on any recognised stock exchange by any one of the Acquired Companies. SMG has already begun statutory liquidation procedures and the Group has no plan to list either of the Acquired Companies.
- (b) As stated in note 5(c) to the accounts, the IRD issued estimated assessments to certain subsidiaries of the Group in respect of their potential tax liabilities for the years of assessment from 1996/1997 to 2001/2002. There are possible obligations in penalty and interest arising in respect of the potential tax liabilities in the event that the objection is settled.

### 23 OPERATING LEASE COMMITMENTS

As at 30th September, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>8,190</b>	10,515
Later than one year and not later than five years	<b>3,329</b>	10,092
	<b>11,519</b>	20,607

## Notes to the Accounts

### 24 PRINCIPAL SUBSIDIARIES

As at 30th September, 2005, the principal subsidiaries of the Company are as follows:

Subsidiary	Country/place of incorporation/ establishment and operation	Issued/ registered and full paid up capital	Percentage of equity held by the Company		Principal activities
			Direct %	Indirect %	
Advance Communication International Limited	Taiwan	Ordinary NT\$1,000,000	–	100	Trading of telecommunication products
Bright Advance Group Limited	British Virgin Islands/Taiwan	Ordinary US\$1	–	100	Trading of telecommunication products
Linktech Hong Kong Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of repair services
New Eagle Technology Limited	Hong Kong	Ordinary HK\$10,000	–	100	Trading of telecommunication products
Sun Brilliant Development Limited	Hong Kong	Ordinary HK\$2	–	100	Trading of telecommunication products
Techglory International Limited	Hong Kong	Ordinary HK\$1,388,000	–	100	Trading of telecommunication products
Wide Tech Communication Limited	Taiwan	Ordinary NT\$500,000	–	100	Provision of repair services

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.



## Notes to the Accounts

### **25 ULTIMATE HOLDING COMPANY**

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

### **26 COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current year's presentation.

### **27 APPROVAL OF ACCOUNTS**

The accounts on pages 30 to 67 were approved by the Board of Directors on 16th January, 2006.