

BOARD OF DIRECTORS

Chan Chung Yee, Hubert (*Chairman*)
Chan Chung Yin, Roy
Chan Man Min
Yeh Yui Fong
Tsui Hon Wing
Kwok Cheuk Tim, Rockie
Chan Ming Him, Denny
Wu Kwok Lam AHKSA, FCCA
Chu Chor Lup*
Chiu Ngar Wing FCCA, AHKSA, CPA*

* *Independent non-executive director*

COMPANY SECRETARY

Wu Kwok Lam A.H.K.S.A., F.C.C.A

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman, Cayman Islands
British West Indies

PRINCIPAL OFFICE

2nd Floor,
Nos. 55 and 57 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL REGISTRAR AND TRANSFER

OFFICE

Bank of Bermuda (Cayman) Limited
36C Bemuda House
3rd Floor, P.O. Box 513 GT
Dr. Ray's Drive
George Town, Grand Cayman
Cayman Islands
British West Indies

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

HONG KONG BRANCH REGISTRAR

Pilare Limited
10th Floor, Sun Hung Kai Centre
30 Harbour Road
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

NOTICE IS HEREBY GIVEN that the annual general meeting of HKC International Holdings Limited (the "Company") will be held at 4:00 p.m. on 10 September 2003 at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong to transact the following ordinary businesses:

1. to receive and approve the audited combined financial statements and the reports of the directors (the "Directors") of the Company and the Company's auditors for the year ended 31 March 2003;
2. to declare a final dividend for the year ended 31 March 2003 of HK1 cent per share (each a "Share") of HK\$0.01 each in the capital of the Company by way of a scrip dividend (the "Scrip Dividend Scheme") with an option to elect to receive an allotment and issue of Shares credited as fully paid in lieu of cash payment;
3. to re-elect the retiring Directors and to authorise the board of Directors to fix the Directors' remuneration;
4. to re-appoint the Company's auditors and to authorise the board of directors to fix their remuneration;

and, as special businesses, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

5. **"THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with the unissued shares (each a "Share") of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any options granted under the share option scheme of the Company adopted from time to time in accordance with the Listing Rules; or (iii) any scrip dividend or similar arrangements including the Scrip Dividend Scheme (as defined in paragraph 2 above) providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms

of any warrants of the Company or any securities which are convertible into Shares shall not exceed the aggregate of:

- (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of Shares under the Scrip Dividend Scheme; and
- (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of any share capital of the Company purchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of Shares under the Scrip Dividend Scheme),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (Law 3 of 1961, as consolidated and revised) (the “Companies Law”) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution;

“Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

6. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase shares (each a “Share”) of HK\$0.01 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the Companies Law and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased or agreed to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution as enlarged by the allotment and issue of Shares under the Scrip Dividend Scheme and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purposes of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law or any other applicable law of Cayman to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

7. “**THAT** conditional on the passing of resolution numbered 5 above, the general mandate granted to the directors of the Company pursuant to paragraph (a) of resolution numbered 5 above be and it is hereby extended by the addition to the aggregate nominal amount of the shares which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased or agreed to be repurchased by the Company pursuant to or in accordance with the authority granted under paragraph (a) of resolution numbered 6 above.”

By order of the board of directors of
HKC International Holdings Limited
Chan Chung Yee Hubert
Chairman

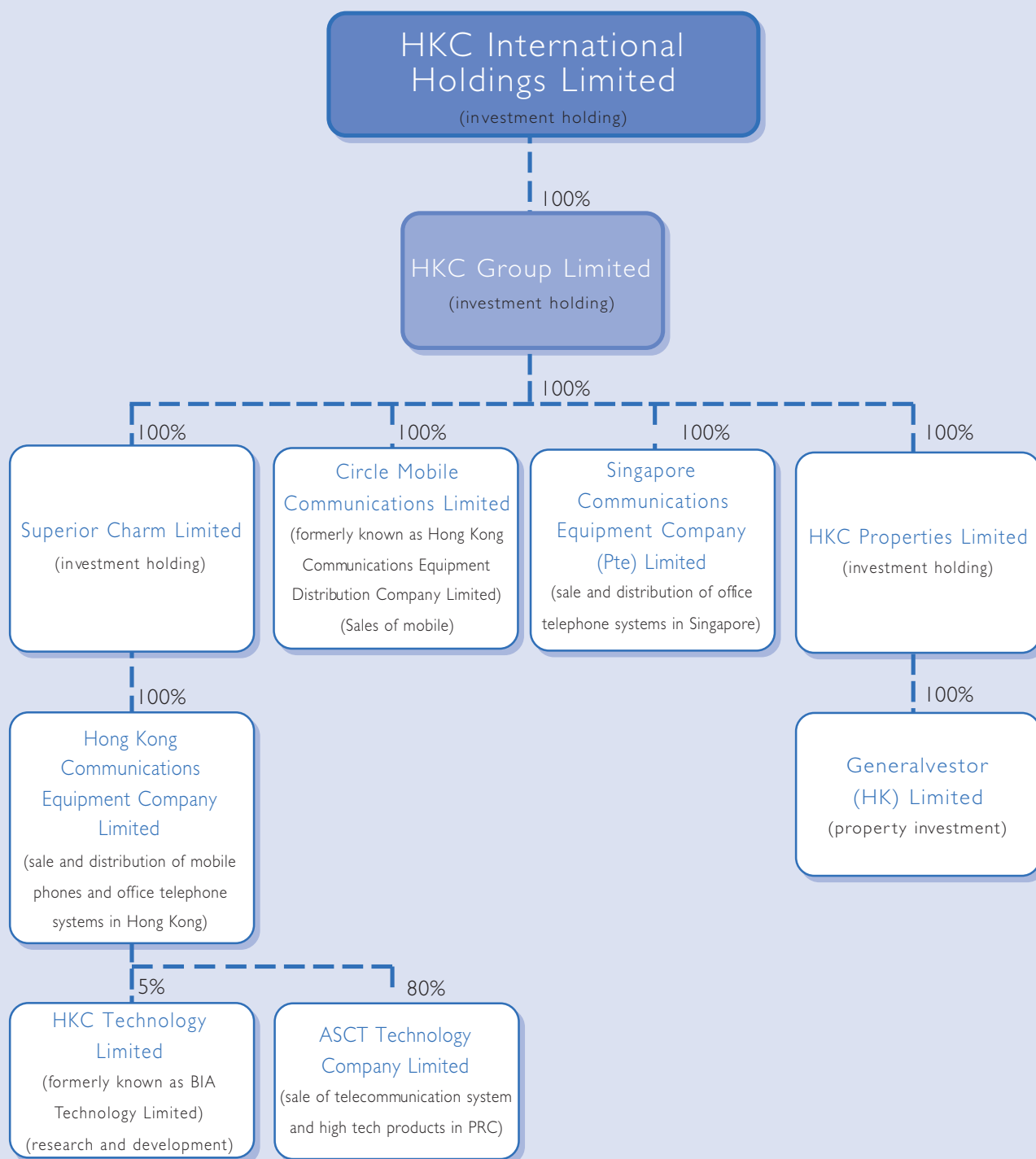
Hong Kong, 18 July 2003

Registered office:
Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

*Head office and principal place
of business in Hong Kong:*
2nd Floor
Nos. 55 & 57 Hennessy Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's Hong Kong branch registrar, Pilare Limited at 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. In relation to proposed resolutions numbered 5 and 7 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of shares under the Listing Rules. The directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme (including the Scrip Dividend Scheme) which may be approved by shareholders.
4. In relation to proposed resolution numbered 6 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules will be set out in a separate document to be despatched to the shareholders.



For the year ended 31 March 2003, the Group's turnover increased by 13% to HK\$821 million (2002: 726 million) and net profit decreased by 48% to HK\$10.9 million (2002: HK\$20.9 million) in comparison with the last year. We opened eight shops under the trading name of "Circle" in various Jusco department stores in January 2003 to expand our sales of mobile phones and related products. The increase in administrative expenses from approximately HK\$61 million to HK\$65 million principally reflected the operating costs for these new shops.

Sales of mobile phones

Although the turnover was increased by 19% to HK\$758 million (2002: HK\$ 639 million), the profit was dropped by about 42 % to HK\$6.7 million (2002: HK\$11.5 million). With the intensive competition in the mobile handset market and economic recession in Hong Kong, the profit margin has been greatly eroded. In addition, the start-up costs and low turnover of the "Circle" retail chain during the initial period of the operation has further reduced the profit.

Sale of office telephone systems

The turnover was dropped by 20% to HK\$31 million (2002: HK\$38 million) and the profit was HK\$0.7 million. The decline in corporate spending due to adverse economic conditions led to the drop in both turnover and profit.

Connection service

The saturated penetration rate of the mobile phone service subscribers restricted the growth of the business. The profit for this segment was HK\$0.1 million.

Property investment

The rental income was stable during the year.

Installation, repair and maintenance services

The reluctance of the customers to replace the existing equipment led to the increase in demand of these services. This segment contributed HK\$6.1 million to the Group, representing a 19% increase when compared with last year.

PROSPECTS

Purchase of property

As disclosed in our circular dated 4 November 2002, a property adjacent to one of our existing investment properties has been acquired at a consideration of HK\$48,200,000. This will not only provide a source for stable rental income but also cater for an opportunity to re-develop the relevant properties should the market situation and return justify. We hope that this will improve the quality and enhance the value of Group's properties portfolio.

Retail chain

As at the date of this announcement, the Group operates seventeen retail outlets under the trading name of "Circle" and three franchised retail outlets: a "Smartone" shop (formerly known as "Extra" shop) and two "Nokia Professional Centre". The cost savings and benefits brought from economic of scale of operations will be reflected in coming year.

Joint venture company in Shanghai, the PRC

As disclosed in the interim report, we have formed a joint venture company, 80% owned by us, in Shanghai, for sales of telecommunication system and other high-tech products. This gives us a foothold to seek other investment and co-operation opportunities in China.

Research and development

A new product, 5.8G wireless PABX, is expected to be launched in October 2003. A marketing company in United States has been employed for promotion and sales of this product and other existing products.

The outbreak of SARS in March 2003 affected almost all sectors of the community. Unavoidably, the Group's sales were reduced by about 30 % in April and May 2003. To ease the burden of high stock, we lowered the selling price to stimulate the sales. The sales were gradually improved from June 2003 but the profit margin was further squeezed.

In facing such an adverse market environment, the Group will continue to tighten the cost control, explore new market and investment opportunity to enhance the Group's value and return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003 the Group's cash and bank balances amounted to approximately HK\$22 million (2002: HK\$51 million) while the bank borrowing was HK\$33 million (2002: HK\$1 million). The significant drop in the cash and bank balances was due to the payment of 30% purchase price, amounting to HK\$14.4 million, of a property, HK\$3 million for expanding the "Circle" shops, HK\$4 million for investment in a joint venture company in Shanghai. In addition, HK\$8 million has been placed in certificates of deposit issued by a bank to earn more interest income. The bank borrowing is denominated in Hong Kong dollars and is repayable by 120 monthly instalments at a fixed interest rate.

The gearing ratio was 16.6% (2002: 0.6%) which is expressed as a percentage of total borrowings to shareholders' funds. The increase in gearing ratio was due to the increase in bank borrowing of HK\$33 million for purchase of a property.

As substantial portion of transactions are dominated in Hong Kong Dollar, the Group's exposure to exchange fluctuation is low.

CAPITAL EXPENDITURE

As disclosed in a circular dated 4 November 2002, a property was acquired at a consideration of HK\$48,200,000. This was funded through a combination of internal resources and bank financing in a proportion of 30% and 70% respectively. The Group also invested HK\$4.2 million in furniture, fixtures, equipment and other tangible assets. This was financed from internal resources.

USE OF PROCEEDS OF NEW ISSUE

Up to 31 March 2003, the use of the listing proceeds are analysed as follows:

	Forecast HK\$'000	Actual HK\$'000
Repackaging and expanding the existing stores	5,000	5,000
Setting up sales and distribution network in United Kingdom and the United States	4,000	–
Expanding the distribution channel in PRC	4,000	–
Establishing a joint venture in Shanghai, the PRC for provision of systems integration services	2,000	2,000
Research and development	8,000	4,000
General working capital	7,500	7,500
	<u>30,500</u>	<u>18,500</u>

The unused balance of approximately HK\$12 million has been placed into short-term bank deposits.

EMPLOYEES

As at 31 March 2003, the total number of employees of the Group was approximately 300 (2002: 230) and the remuneration of employees (excluding directors' emoluments) amounted to HK\$41 million (2002: HK\$45 million). The remuneration and bonus packages are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the Directors. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

At 31 March 2003, certain leasehold land and buildings and investment properties with aggregate carrying values of HK\$4 million (2002: HK\$4 million) and HK\$54 million (2002: HK\$7 million) respectively were pledged to banks to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

Corporate guarantees totalling HK\$87 million (2002: HK\$48 million) have been executed to secure banking facilities granted to the subsidiaries.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 11 August 2003 to 12 August 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Pilare Limited, 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 4:00 p.m. on 8 August 2003.

APPRECIATION

We would like to extend our sincere gratitude to all the staff members of the Group for their contribution and continued support during the year:

By order of the board of directors of
HKC International Holdings Limited
Chan Chung Yee Hubert
Chairman

Hong Kong, 18 July 2003

The directors have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 22.

The directors now recommend the payment of a final dividend of HK 1 cent per share to the shareholders of the Company whose names appear on the register of members on 12 August 2003, amounting to HK\$4,348,000.

INVESTMENT PROPERTIES

All of the investment properties of the Group were revalued at 31 March 2003. The revaluation decrease arising on revaluation, which amounted to HK\$3,841,000, has been charged to the investment property revaluation reserve.

Details of these and other movements during the year in the investment properties of the Group are set out in note 16 to the financial statements.

Particulars of the investment properties of the Group as at 31 March 2003 are set out on page 62.

PROPERTY, PLANT AND EQUIPMENT

All of the leasehold land and buildings were revalued at 31 March 2003. The revaluation increase arising on revaluation, which amounted to HK\$307,000, has been credited to the leasehold property revaluation reserve.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Chan Chung Yee, Hubert – *Chairman*

Chan Chung Yin, Roy

Chan Man Min

Chan Ming Him, Denny

Kwok Cheuk Tim, Rockie

Tsui Hon Wing

Wu Kwok Lam

Yeh Yui Fong

Independent non-executive directors:

Chiu Ngar Wing

Chu Chor Lup

Fung Lewis Hung *(resigned on 1 September 2002)*

In accordance with Article 108 of the Company's Articles of Association, Messrs. Yeh Yui Fong, Kwok Cheuk Tim, Rockie and Chan Man Min retire by rotation and, being eligible, offer themselves for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each independent non-executive director is one year.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the interests disclosed under the section headed "Connected transactions" below and as disclosed in note 35 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were set out below:

Name of director	Number of shares held		
	Personal interest	Family interest	Corporate interest
Chan Chung Yee, Hubert	–	213,252,200(i)	–
Chan Chung Yin, Roy	–	68,417,400(ii)	–
Chan Man Min	–	–	24,709,650(iii)
Yeh Yui Fong	–	–	2,681,550(iv)
Tsui Hon Wing	1,939,200	–	–

Notes:

- (i) 8,000,000 shares were held by Light Emotion Limited, a company wholly-owned by Matrix World Group Limited and 205,252,200 shares were held by Matrix World Group Limited, a company wholly-owned by Newcourt Trustees Limited as the trustee of the Mr. Chan Chung Yee, Hubert's family trust.
- (ii) 68,417,400 shares were held by Star Global International Limited, a company wholly-owned by Newcourt Trustees Limited as the trustee of the Mr. Chan Chung Yin, Roy's family trust.
- (iii) 24,709,650 shares were held by Ocean Hope Group Limited which was wholly-owned by Mr. Chan Man Min.
- (iv) 2,681,550 shares were held by CIT Company Limited of which Mr. Yeh Yui Fong and his wife each owned 50% of the issued share capital.

Save as disclosed above, at 31 March 2003, none of the directors or their associates had any interests in the securities of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

At 31 March 2003, the number of shares in respect of which options had been granted under the scheme was 23,600,000, representing approximately 5% of shares of the Company in issue at that date.

The fair value of the options granted in the current year measured as at the date of grant on 21 February 2003 totalled approximately HK\$490,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

1. an expected volatility of 54%;
2. expected annual dividend yield of 7.89%; and
3. the estimated expected life of the options granted is 24 months. The corresponding two-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 1.69%.

The closing price of the Company's shares immediately before the date of grant was HK\$0.17.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the consolidated income statement in respect of the value of option granted in the year.

SHARE OPTIONS — continued

The following table discloses movements in the Company's share options during the year:

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 April 2002	Lapsed during the year	Granted during the year	Outstanding at 31 March 2003
Directors:						
Chan Chung Yee, Hubert	23.5.2002 – 22.11.2002	0.38	4,300,000	(4,300,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	4,300,000	4,300,000
Chan Chung Yin, Roy	23.5.2002 – 22.11.2002	0.38	1,800,000	(1,800,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	2,000,000	2,000,000
Chan Man Min	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	1,000,000	1,000,000
Chan Ming Him, Denny	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	1,000,000	1,000,000
Kwok Cheuk Tim, Rockie	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	2,000,000	2,000,000
Tsui Hon Wing	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	1,000,000	1,000,000

SHARE OPTIONS — continued

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 April 2002	Lapsed during the year	Granted during the year	Outstanding at 31 March 2003
Directors (continued):						
Wu Kwok Lam	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	1,000,000	1,000,000
Yeh Yui Fong	23.5.2002 – 22.11.2002	0.38	1,000,000	(1,000,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	1,000,000	1,000,000
			12,100,000	(12,100,000)	13,300,000	13,300,000
Employees	23.5.2002 – 23.11.2003	0.38	3,800,000	–	–	3,800,000
Customers	23.5.2002 – 30.6.2003	0.38	6,500,000	–	–	6,500,000
			22,400,000	(12,100,000)	13,300,000	23,600,000

CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions:

Name	Nature of transaction	Amount HK\$'000
Hong Kong Communications Computer Company Limited	Computer software maintenance fee and purchase of computer hardwares	1,038
HKC Technology Limited	Purchase of goods	2,076

SHARE OPTIONS — continued

The directors of the Company, Mr. Chan Chung Yee, Hubert, Mr. Chan Chung Yin, Roy and Mr. Chan Man Min have beneficial interests in Hong Kong Communications Computer Company Limited.

The Group has 5% equity interest in HKC Technology Limited.

The independent non-executive directors confirm that the transactions have been entered into by the Group in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions and in normal commercial terms.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance recorded the following parties as having an interest representing 10% or more in the issued share capital of the Company as at 31 March 2003:

Name	Number of shares held	Percentage held
Matrix World Group Limited	205,252,200	47.20%
Star Global International Limited	68,417,400	15.73%
Newcourt Trustees Limited (note)	281,669,600	64.77%

Note: Light Emotion Limited, which holds 8,000,000 shares of the Company, is a wholly-owned subsidiary of Matrix World Group Limited. Newcourt Trustees Limited owns 100% of Matrix World Group Limited and Star Global International Limited and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Light Emotion Limited, Matrix World Group Limited and Star Global International Limited.

Save as disclosed above and as disclosed in "Directors' interest in shares" disclosed above, no person has registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2003, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 47% of the Group's total turnover and the sales attributable to the Group's largest customer was approximately 28% of the total sales. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 95% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 90% of the total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DONATION

During the year, the Group made a charitable donation amounting to HK\$100,000.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

AUDIT COMMITTEE

The Company established an audit committee on 12 September 2001 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Company's audit committee comprises two independent non-executive directors namely, Mr. Chiu Ngar Wing and Dr. Chu Chor Lup.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan ChungYee Hubert

Chairman

Hong Kong, 18 July 2003

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF HKC INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18 July 2003

Consolidated Income Statement

For the year ended 31 March 2003

ANNUAL REPORT 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4	821,405	726,717
Cost of sales		(731,428)	(628,424)
Gross profit		89,977	98,293
Gain on disposal of an investment property		–	2,911
Other operating income	6	754	493
Selling and distribution costs		(9,264)	(14,646)
Administrative expenses		(65,247)	(60,910)
Impairment loss recognised in respect of investments in securities	7	(2,000)	–
Impairment loss recognised in respect of goodwill		(471)	–
Profit from operations	8	13,749	26,141
Finance costs	9	(267)	(91)
Profit before taxation		13,482	26,050
Taxation	12	(2,604)	(3,668)
Profit before minority interests		10,878	22,382
Minority interests		93	(1,470)
Net profit for the year		10,971	20,912
Dividend	13	8,660	N/A
Earnings per share – (HK cents)			
– basic	14	2.5 cents	5.4 cents
– diluted	14	2.5 cents	N/A

	Notes	THE GROUP		THE COMPANY	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-current assets					
Goodwill	15	–	–	–	–
Investment properties	16	85,338	32,760	–	–
Property, plant and equipment	17	50,470	54,589	–	–
Interests in subsidiaries	18	–	–	186,693	174,609
Investments in securities	19	2,000	4,000	–	–
Club debentures		335	335	–	–
		138,143	91,684	186,693	174,609
Current assets					
Inventories	20	65,645	41,240	–	–
Debtors, deposits and prepayments	21	34,534	41,626	–	–
Amounts due from related companies	22	6,191	2,049	–	–
Investments in securities	19	7,741	–	7,741	–
Taxation recoverable		2,696	4,619	–	–
Bank balances and cash		22,030	51,504	1,014	20,145
		138,837	141,038	8,755	20,145
Current liabilities					
Creditors and accrued charges	23	44,309	31,361	–	255
Bills payable		–	412	–	–
Taxation payable		572	664	–	–
Obligations under finance leases	24	44	14	–	–
Bank borrowings – secured	25	3,098	843	–	–
		48,023	33,294	–	255
Net current assets		90,814	107,744	8,755	19,890
Total assets less current liabilities		228,957	199,428	195,448	194,499
Non-current liabilities					
Obligations under finance leases	24	49	–	–	–
Bank borrowings – secured	25	30,308	371	–	–
		30,357	371	–	–
Minority interests		378	–	–	–
		198,222	199,057	195,448	194,499



Balance Sheets

At 31 March 2003

ANNUAL REPORT 2003

		THE GROUP		THE COMPANY	
		2003	2002	2003	2002
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital and reserves					
Share capital	26	4,348	4,330	4,348	4,330
Reserves	28	193,874	194,727	191,100	190,169
		<u>198,222</u>	<u>199,057</u>	<u>195,448</u>	<u>194,499</u>

The financial statements on pages 22 to 60 were approved and authorised for issue by the Board of Directors on 18 July 2003 and are signed on its behalf by:

Chan Chung Yee Hubert
DIRECTOR

Chan Chung Yin Roy
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Leasehold property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1 April 2001	–	–	–	14,747	–	(41)	107,495	122,201
Contribution from minority shareholders of subsidiaries waived	–	–	15,697	–	–	–	–	15,697
Revaluation increase	–	–	–	1,470	27,856	–	–	29,326
Exchange differences on translation of overseas operations	–	–	–	–	–	(26)	–	(26)
Net gains (losses) not recognised in consolidated income statement	–	–	15,697	1,470	27,856	(26)	–	44,997
Issue of shares before Group Reorganisation	200	–	–	–	–	–	–	200
Issue of shares by capitalisation of share premium account	3,330	–	–	–	–	–	–	3,330
Issue of shares for placing and public offer	800	–	–	–	–	–	–	800
Premium arising from placing and public offer of shares	–	39,200	–	–	–	–	–	39,200
Shares issue expenses	–	(8,970)	–	–	–	–	–	(8,970)
Capitalisation issue	–	(3,330)	–	–	–	–	–	(3,330)
Shares exchange upon Group Reorganisation	–	–	12,628	–	–	–	–	12,628
Released on disposal of an investment property	–	–	–	(2,911)	–	–	–	(2,911)
Net profit for the year	–	–	–	–	–	–	20,912	20,912
Dividend paid	–	–	–	–	–	–	(30,000)	(30,000)
At 31 March 2002	4,330	26,900	28,325	13,306	27,856	(67)	98,407	199,057
Revaluation (decrease) increase	–	–	–	(3,841)	307	–	–	(3,534)
Exchange differences on translation of overseas operations	–	–	–	–	–	31	–	31
Net (losses) gains not recognised in consolidated income statement	–	–	–	(3,841)	307	31	–	(3,503)
Shares issued pursuant to scrip dividend scheme	18	339	–	–	–	–	–	357
Net profit for the year	–	–	–	–	–	–	10,971	10,971
Dividend paid	–	–	–	–	–	–	(8,660)	(8,660)
At 31 March 2003	4,348	27,239	28,325	9,465	28,163	(36)	100,718	198,222

Consolidated Cash Flow Statement

For the year ended 31 March 2003

ANNUAL REPORT 2003

	2003	2002
	HK\$'000	HK\$'000
Operating activities		
Profit from operations	13,749	26,141
Adjustments for:		
Interest income	(265)	(439)
Depreciation and amortisation	2,862	2,730
Impairment loss recognised in respect of investments in securities	2,000	–
Impairment loss recognised in respect of goodwill	471	–
(Gain) loss on disposal of property, plant and equipment	(80)	106
Gain on disposal of an investment property	–	(2,911)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	18,737	25,627
Increase in inventories	(24,405)	(17,750)
Decrease (increase) in debtors, deposits and prepayments	7,092	(307)
Decrease (increase) in amounts due from related companies	278	(46)
Increase in creditors and accrued charges	12,948	10,938
(Decrease) increase in bills payable	(412)	20
Exchange adjustment	(11)	(16)
	<hr/>	<hr/>
Cash generated from operations	14,227	18,466
Interest received	265	439
Interest paid	(260)	(78)
Interest on finance leases	(7)	(13)
Hong Kong Profits Tax paid	(773)	(8,979)
	<hr/>	<hr/>
Net cash from operating activities	13,452	9,835
	<hr/>	<hr/>
Investing activities		
Purchase of property, plant and equipment	(4,033)	(3,289)
Purchase of investment properties	(50,601)	–
Purchase of investments in securities	(7,741)	(4,000)
Proceeds from disposal of property, plant and equipment	80	1,430
Advance to related companies	(4,420)	(1,631)
	<hr/>	<hr/>
Net cash used in investing activities	(66,715)	(7,490)
	<hr/>	<hr/>

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	2003	2002
	HK\$'000	HK\$'000
Financing activities		
Proceeds from shares issued	–	40,200
Shares issue expenses	–	(8,970)
Dividend paid	(8,303)	(30,000)
Repayment of bank loans	(796)	(863)
Repayment of obligations under finance leases	(111)	(77)
New bank loan raised	33,740	–
Advances from directors	–	15,268
	<hr/>	<hr/>
Net cash from financing activities	24,530	15,558
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(28,733)	17,903
Cash and cash equivalents at beginning of the year	50,752	32,851
Effect of foreign exchange rate changes	11	(2)
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	22,030	50,752
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Being:		
Bank balances and cash	22,030	51,504
Bank overdrafts	–	(752)
	<hr/>	<hr/>
	22,030	50,752
	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 March 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 36.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of cash flow statement and the inclusion of the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries and operations at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received and dividends paid, which were previously presented under a separate heading, are classified as appropriate cash flows this year. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries and operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, leasehold land and buildings, and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiary is capitalised and amortised on a straight line basis over its useful economic life and is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income arising from repairs, installation, maintenance, connection and consultancy are recognised when the relevant services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation, amortisation and any identified impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the leasehold property revaluation reserve except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of land and buildings is charged as an expense to the extent that it exceeds the surplus, if any, held in the leasehold property revaluation reserve relating to previous revaluation of that particular property. On the subsequent sale of land and buildings, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost or valuation of items of assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 40 years
Leasehold improvements	20%
Furniture and fixtures	10% – 20%
Office equipment	10% – 20%
Computer equipment	33 $\frac{1}{3}$ %
Motor vehicles	20%

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories, representing merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Assets under finance leases

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income statement as expense over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

Foreign currencies

Transactions in foreign currencies are translated at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES — continued**Foreign currencies — continued**

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the year. All exchange differences arising on consolidation are dealt with in the translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

4. TURNOVER

	2003	2002
	HK\$'000	HK\$'000
Sale of goods	789,072	677,400
Repair service	14,877	7,161
Maintenance service	9,891	9,079
Installation service	3,403	4,584
Connection service	1,817	22,912
Consultancy service	—	3,059
Rental income	2,345	2,522
	<u>821,405</u>	<u>726,717</u>

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions – sales of mobile phones, sales of office telephone systems, connection services, property investment, and installation, repair and maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 March 2003

	Sales of mobile phones HK\$'000	Sales of office telephone systems HK\$'000	Connection services HK\$'000	Property investment HK\$'000	Installation, repair and maintenance services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue							
External sales	758,477	30,595	1,817	2,345	28,171	–	821,405
Inter-segment sales	64,453	4,310	–	1,980	–	(70,743)	–
Total revenue	<u>822,930</u>	<u>34,905</u>	<u>1,817</u>	<u>4,325</u>	<u>28,171</u>	<u>(70,743)</u>	<u>821,405</u>

Inter-segment sales are charged at prevailing market rates.

Result

Segment result	<u>6,731</u>	<u>778</u>	<u>189</u>	<u>1,608</u>	<u>6,160</u>	<u>–</u>	15,466
Interest income from bank deposits							265
Unallocated other revenue							489
Impairment loss on investments in securities		(2,000)					(2,000)
Impairment loss recognised in respect of goodwill		(471)					<u>(471)</u>
Profit from operations							13,749
Finance costs							<u>(267)</u>
Profit before taxation							13,482
Taxation							<u>(2,604)</u>
Profit before minority interests							10,878
Minority interests							<u>93</u>
Net profit for the year							<u>10,971</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued**Business segments — continued****At 31 March 2003****Balance sheet**

	Sales of mobile phones	Sales of office telephone systems	Connection services	Installation, repair and Property maintenance investment	services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	84,733	45,642	2,479	85,993	19,411	238,258
Unallocated corporate assets						38,722
						<u>38,722</u>
Consolidated total assets						<u><u>276,980</u></u>
Liabilities						
Segment liabilities	37,569	6,280	–	206	254	44,309
Unallocated corporate liabilities						34,071
						<u>34,071</u>
Consolidated total liabilities						<u><u>78,380</u></u>
Other information						
Capital expenditure	2,886	1,288	–	50,636	14	54,824
Depreciation and amortisation	1,859	548	–	428	27	2,862
Impairment loss recognised	–	2,471	–	–	–	2,471

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued

Business segments — continued

For the year ended 31 March 2002

	Sales of mobile phones	Sales of office telephone systems	Sales of Connection services	Installation, repair and Property investment	Installation, repair and services	Other activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
External sales	639,136	38,264	22,912	2,522	20,824	3,059	–	726,717
Inter-segment sales	–	4,723	–	2,542	–	–	(7,265)	–
Total revenue	<u>639,136</u>	<u>42,987</u>	<u>22,912</u>	<u>5,064</u>	<u>20,824</u>	<u>3,059</u>	<u>(7,265)</u>	<u>726,717</u>

Inter-segment sales are charged at prevailing market rates.

Result

Segment result	<u>11,553</u>	<u>1,233</u>	<u>2,566</u>	<u>1,705</u>	<u>5,175</u>	<u>505</u>	<u>–</u>	22,737
Gain on disposal of an investment property								2,911
Interest income from bank deposits								439
Unallocated other revenue								<u>54</u>
Profit from operations								26,141
Finance costs								<u>(91)</u>
Profit before taxation								26,050
Taxation								<u>(3,668)</u>
Profit before minority interests								22,382
Minority interests								<u>(1,470)</u>
Net profit for the year								<u>20,912</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued**Business segments — continued****At 31 March 2002****Balance sheet**

	Sales of mobile phones	Sales of office telephone systems	Connection services	Property investment	Installation, repair and maintenance services	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Segment assets	80,601	38,682	4,307	33,234	15,544	1,647	174,015
Unallocated corporate assets							58,707
							<u>174,015</u>
Consolidated total assets							<u><u>232,722</u></u>
Liabilities							
Segment liabilities	24,757	6,265	–	232	14	–	31,268
Unallocated corporate liabilities							2,397
							<u>2,397</u>
Consolidated total liabilities							<u><u>33,665</u></u>
Other information							
Capital expenditure	3,137	118	–	17	6	11	3,289
Depreciation and amortisation	1,538	623	–	529	15	25	2,730

Geographical segments

More than 90% of the Group's turnover, profit from operations, assets and liabilities were derived from and located in Hong Kong and, therefore, no geographical segments are presented.

Notes to the Financial Statements

For the year ended 31 March 2003

ANNUAL REPORT 2003

6. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Interest income from bank deposits	265	439
Sundry income	489	54
	<hr/>	<hr/>
	754	493
	<hr/> <hr/>	<hr/> <hr/>

7. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INVESTMENTS IN SECURITIES

The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31 March 2003 and have determined that the investment securities amounting to HK\$2,000,000 to be impaired as the investee has continued losses in the current and prior years.

8. PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	593	687
Depreciation and amortisation		
– owned assets	2,836	2,716
– assets under finance leases	26	14
Loss on disposal of property, plant and equipment	–	106
Rental payments in respect of properties under operating leases	10,004	5,262
Staff costs inclusive of directors' emoluments	44,233	48,236
Retirement benefits scheme contribution	2,410	2,316
	<hr/>	<hr/>
Total staff costs	46,643	50,552
	<hr/>	<hr/>
and after crediting:		
Gross rental income from properties under operating leases after outgoings of HK\$48,000 (2002: HK\$60,000)	2,297	2,462
Gain on disposal of property, plant and equipment	80	–
	<hr/> <hr/>	<hr/> <hr/>

9. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	40	78
– bank borrowings with instalments repayable after five years	220	–
– interest on obligations under finance leases	7	13
	<u> </u>	<u> </u>
	267	91
	<u> </u>	<u> </u>

10. DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$'000	HK\$'000
Directors' fees to independent non-executive directors	60	–
	<u> </u>	<u> </u>
Other emoluments to executive directors:		
Salaries and other benefits	3,870	4,131
Bonus	1,314	1,565
Retirement benefit schemes contributions	62	56
	<u> </u>	<u> </u>
	5,246	5,752
	<u> </u>	<u> </u>
Total directors' emoluments	5,306	5,752
	<u> </u>	<u> </u>

The remunerations of the directors were within the following bands:

	2003	2002
	Number of directors	Number of directors
Nil to HK\$1,000,000	9	9
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	2
	<u> </u>	<u> </u>
	11	11
	<u> </u>	<u> </u>

There was no compensation for loss of office paid to directors.

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included four directors (2002: three directors), details of whose emoluments are included in the amounts disclosed in note 10 above. The emoluments of the remaining highest paid employee(s), other than directors of the Company, are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	130	369
Bonus	441	1,126
Retirement benefit schemes contributions	12	24
	<u>583</u>	<u>1,519</u>

Their emoluments were within the following bands:

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	<u>1</u>	<u>2</u>

12. TAXATION

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax		
– current year	2,950	4,203
– overprovision in prior years	(346)	(535)
	<u>2,604</u>	<u>3,668</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

No provision for profits tax has been made in the financial statements for subsidiaries incorporated/registered elsewhere outside Hong Kong as they have no assessable profit for the year.

There is no significant unprovided deferred taxation as at 31 March 2002 and 2003 for the Group and the Company.

12. TAXATION — continued

Deferred tax has not been provided on the revaluation increase arising on the revaluation of investment properties and leasehold land and buildings as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation increase does not constitute a timing difference for tax purposes.

13. DIVIDEND

	2003	2002
	HK\$'000	HK\$'000
		(Note)
Final dividend for the year 2002 of 2 cents per share	<u><u>8,660</u></u>	<u><u>N/A</u></u>

The final dividend of 1 cent for the year ended 31 March 2003 per share has been proposed by the directors and is subject to the approval by the shareholders in general meeting.

Note: In 2002, a subsidiary of the Company, Generalvestor (H.K.) Limited paid dividend of HK\$30,000,000 to the then shareholders prior to the group reorganisation to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation") on 12 September 2001.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Net profit for the year	<u><u>10,971</u></u>	<u><u>20,912</u></u>
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	434,020,171	384,342,466
Effect of dilutive potential ordinary shares:		
Options	<u><u>346,091</u></u>	—
Weighted average number of ordinary shares for the purposes of diluted earnings per shares	<u><u>434,366,262</u></u>	<u><u>384,342,466</u></u>

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

14. EARNINGS PER SHARE — continued

The weighted average number of shares for 2002 was based on the assumption that the issue of shares of the Company upon the Group Reorganisation and the capitalisation issue, other than those attributable to the acquisition of minority interests in certain subsidiaries, and details of which are set out in the prospectus issued by the Company on 30 October 2001, had been taken place on 1 April 1998.

The computation of diluted earnings per share for 2002 has not assumed the exercise of the Company's options since the exercise price was higher than the average market price of share for 2002.

15. GOODWILL

Arising on capital injection in a subsidiary
Impairment loss recognised

At end of the year

2003
HK\$'000

471
(471)

-

16. INVESTMENT PROPERTIES

VALUATION

At 1 April 2002

Additions

Transfer from property, plant and equipment

Deficit arising on revaluation

At 31 March 2003

THE GROUP
HK\$'000

32,760

50,601

5,818

(3,841)

85,338

16. INVESTMENT PROPERTIES — continued

The Group's investment properties comprise:

	2003	2002
	HK\$'000	HK\$'000
Properties in Hong Kong		
– Long lease	75,858	22,800
– Medium-term lease	9,480	9,960
	<u> </u>	<u> </u>
	85,338	32,760
	<u> </u>	<u> </u>

All of the investment properties of the Group were revalued at 31 March 2003 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuer, on an open market value existing use basis. The resulting decrease arising on revaluation, which amounted to HK\$3,841,000, has been charged to the investment property revaluation reserve.

All the investment properties of the Group are rented out under operating leases.

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Office equipment, leasehold improvements, and furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2002	49,320	17,159	3,414	1,729	71,622
Currency realignment	29	30	17	8	84
Additions	–	2,484	1,208	531	4,223
Disposals	–	–	–	(379)	(379)
Transfer to investment properties	(5,818)	–	–	–	(5,818)
Eliminated on revaluation	(269)	–	–	–	(269)
	<u>43,262</u>	<u>19,673</u>	<u>4,639</u>	<u>1,889</u>	<u>69,463</u>
At 31 March 2003	<u>43,262</u>	<u>19,673</u>	<u>4,639</u>	<u>1,889</u>	<u>69,463</u>
Comprising:					
At cost	–	19,673	4,639	1,889	26,201
At valuation	<u>43,262</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>43,262</u>
	<u>43,262</u>	<u>19,673</u>	<u>4,639</u>	<u>1,889</u>	<u>69,463</u>
DEPRECIATION AND AMORTISATION					
At 1 April 2002	–	13,017	2,457	1,559	17,033
Currency realignment	5	23	17	8	53
Provided for the year	571	1,499	698	94	2,862
Eliminated on disposals	–	–	–	(379)	(379)
Eliminated on revaluation	(576)	–	–	–	(576)
	<u>–</u>	<u>14,539</u>	<u>3,172</u>	<u>1,282</u>	<u>18,993</u>
At 31 March 2003	<u>–</u>	<u>14,539</u>	<u>3,172</u>	<u>1,282</u>	<u>18,993</u>
NET BOOK VALUES					
At 31 March 2003	<u>43,262</u>	<u>5,134</u>	<u>1,467</u>	<u>607</u>	<u>50,470</u>
At 31 March 2002	<u>49,320</u>	<u>4,142</u>	<u>957</u>	<u>170</u>	<u>54,589</u>

17. PROPERTY, PLANT AND EQUIPMENT — continued

All of the leasehold land and buildings of the Group were revalued at 31 March 2003 by LCH (Asia Pacific) Surveyors Limited, an independent firm of professional property valuer, on an open market value existing use basis. The resulting increase arising on revaluation, which amounted to HK\$307,000 has been credited to the leasehold property revaluation reserve.

At 31 March 2003, had all the leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of these properties would have been stated at HK\$16,725,000 (2002: HK\$21,464,000).

The Group's leasehold land and buildings comprise:

	2003	2002
	HK\$'000	HK\$'000
Properties held under long leases		
– in Hong Kong	39,842	45,780
– overseas	3,420	3,540
	43,262	49,320
	216	52

The net book value of office equipment, and furniture and fixtures held under finance leases

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	163,654	163,654
Amounts due from subsidiaries	23,039	10,955
	186,693	174,609

Particulars of the subsidiaries at 31 March 2003 are set out in note 36.

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

19. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP						
Unlisted investment, at cost	4,000	4,000	-	-	4,000	4,000
Impairment loss recognised	(2,000)	-	-	-	(2,000)	-
	<u>2,000</u>	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>4,000</u>
Unlisted debt securities	-	-	7,741	-	7,741	-
Total	<u><u>2,000</u></u>	<u><u>4,000</u></u>	<u><u>7,741</u></u>	<u><u>-</u></u>	<u><u>9,741</u></u>	<u><u>4,000</u></u>
Carrying amount analysed for reporting purposes as:						
Non-current	2,000	4,000	-	-	2,000	4,000
Current	-	-	7,741	-	7,741	-
	<u><u>2,000</u></u>	<u><u>4,000</u></u>	<u><u>7,741</u></u>	<u><u>-</u></u>	<u><u>9,741</u></u>	<u><u>4,000</u></u>
THE COMPANY						
Unlisted debt securities, current	-	-	7,741	-	7,741	-
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>7,741</u></u>	<u><u>-</u></u>	<u><u>7,741</u></u>	<u><u>-</u></u>

The Group's unlisted investment represents 5% equity interest in HKC Technology Limited (formerly known as BIA Technology Limited), a company incorporated in Hong Kong with the principal activities of trading in telecommunication equipment and engaging in research and development.

The debt securities represent the certificates of deposit issued by a bank.

20. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Inventories stated at net realisable value	<u><u>4,951</u></u>	<u><u>4,754</u></u>

21. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period ranging from 2 weeks to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of trade debtors of HK\$29,444,000 (2002: HK\$35,214,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	17,527	20,348
31 – 60 days	2,808	3,335
61 – 90 days	2,866	2,504
91 – 120 days	140	859
Over 120 days	6,103	8,168
	29,444	35,214

22. AMOUNTS DUE FROM RELATED COMPANIES**THE GROUP**

Particulars of the amounts due from related companies, are as follows:

Name of related entity	2003	Maximum amount outstanding during the year	
		2002	2002
	HK\$'000	HK\$'000	HK\$'000
HKC Technology Limited	6,051	1,631	6,051
HKC Intown Limited	–	179	179
Hong Kong Communications Computer Company Limited	140	239	239
	6,191	2,049	

The directors' interests in the above companies are set out in note 35.

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

22. AMOUNTS DUE FROM RELATED COMPANIES — continued

The amounts due from related companies were unsecured, interest free and are repayable on demand.

On 27 June 2003, the amount due from HKC Technology Limited is capitalised as investment cost and the Group's equity interest in HKC Technology Limited has been increased from 5% to 100%.

23. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$37,081,000 (2002: HK\$24,787,000) which are included in the Group's creditors and accrued charges are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	37,057	24,774
31 – 60 days	24	8
61 – 90 days	–	5
	<u>37,081</u>	<u>24,787</u>

24. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases				
Within one year	51	15	44	14
More than one year but not exceeding two years	55	–	49	–
	<u>106</u>	<u>15</u>	<u>93</u>	<u>14</u>
Less: future finance charges	(13)	(1)		
Present value of finance leases	<u>93</u>	<u>14</u>		
Less: Amount due for settlement within one year shown under current liabilities			(44)	(14)
Amount due for settlement after one year			<u>49</u>	<u>–</u>

25. BANK BORROWINGS – SECURED

Bank borrowings comprise:

Bank overdrafts

Bank loans

THE GROUP

2003	2002
HK\$'000	HK\$'000

–	752
33,406	462
33,406	1,214

The maturity of the bank borrowings is as follows:

Due within one year

Due more than one year, but not exceeding two years

Due more than two years, but not exceeding five years

Due more than five years

3,098	843
3,404	371
9,769	–
17,135	–
33,406	1,214

Less: amount due within one year shown under
current liabilities

3,098	843
--------------	-----

Amount due after one year

30,308	371
---------------	-----

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

26. SHARE CAPITAL

	Number of shares		Amount	
	2003	2002	2003 HK\$	2002 HK\$
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year/ on the date of incorporation at HK\$0.1 each	2,000,000,000	1,000,000	20,000	100
Subdivision of shares	-	9,000,000	-	-
Increase during the year	-	1,990,000,000	-	19,900
At end of the year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the year/ on the date of incorporation at HK\$0.1 each	433,000,000	1	4,330	-
Issued at HK\$0.1 each before subdivision of shares	-	999,999	-	-
Subdivision of shares	-	9,000,000	-	-
Issue of shares before Group Reorganisation	-	10,000,000	-	200
Issue of shares by capitalisation of share premium account	-	333,000,000	-	3,330
Issue of shares for placing and public offer	-	80,000,000	-	800
Issued pursuant to scrip dividend scheme for 2002 final dividend	1,825,306	-	18	-
At end of the year	<u>434,825,306</u>	<u>433,000,000</u>	<u>4,348</u>	<u>4,330</u>

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 23 October 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the Company:

- (i) any eligible employee of the Company, any of its subsidiaries or any entity ("Invested Entity");
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The eligibility of any of the above class of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in daily quotations sheet of the Stock Exchange on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

For the year ended 31 March 2003

27. SHARE OPTION SCHEME — continued

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

At 31 March 2003, the number of shares in respect of which options had been granted under the scheme was 23,600,000 (2002: 22,400,000), representing 5% (2002: 5%) of shares of the Company in issue at that date.

No charge is recognised in the consolidated income statement in respect of the value of option granted in the year:

27. SHARE OPTION SCHEME — continued

Movements in the options to subscribe for shares of the year ended 31 March 2003 are as follows:

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 April 2002	Lapsed during the year	Granted during the year	Outstanding at 31 March 2003
Directors	23.5.2002 – 22.11.2002	0.38	12,100,000	(12,100,000)	–	–
	21.2.2003 – 20.2.2005	0.17	–	–	13,300,000	13,300,000
			<u>12,100,000</u>	<u>(12,100,000)</u>	<u>13,300,000</u>	<u>13,300,000</u>
Employees	23.5.2002 – 22.11.2003	0.38	3,800,000	–	–	3,800,000
Customers	23.5.2002 – 30.6.2003	0.38	6,500,000	–	–	6,500,000
			<u>22,400,000</u>	<u>(12,100,000)</u>	<u>13,300,000</u>	<u>23,600,000</u>

Movements in the options to subscribe for shares for the year ended 31 March 2002 are as follows:

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 April 2001	Lapsed during the year	Granted during the year	Outstanding at 31 March 2002
Directors	23.5.2002 – 22.11.2002	0.38	–	–	12,100,000	12,100,000
Employees	23.5.2002 – 22.11.2003	0.38	–	–	3,800,000	3,800,000
Customers	23.5.2002 – 30.6.2003	0.38	–	–	6,500,000	6,500,000
			<u>–</u>	<u>–</u>	<u>22,400,000</u>	<u>22,400,000</u>

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

28. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE COMPANY				
Premium arising from placing and public offer of shares	39,200	–	–	39,200
Shares issue expenses	(8,970)	–	–	(8,970)
Capitalisation issue	(3,330)	–	–	(3,330)
Shares exchange upon Group Reorganisation	–	163,453	–	163,453
Net loss for the period	–	–	(184)	(184)
At 31 March 2002	26,900	163,453	(184)	190,169
Share issue pursuant to scrip dividend scheme	339	–	–	339
Net profit for the year	–	–	9,252	9,252
Dividend paid	–	–	(8,660)	(8,660)
At 31 March 2003	27,239	163,453	408	191,100

The special reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued for the acquisition prior to the listing of the Company's shares in 2001.

The Company's reserves available for distribution represent the share premium, special reserve and retained profits. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution to shareholders as at 31 March 2003 amounted to HK\$191,100,000 (2002: HK\$190,169,000).

29. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements:				
– acquisition of property, plant and equipment	435	–	–	–
– investment in a subsidiary	–	–	1,623	–
	<u>435</u>	<u>–</u>	<u>1,623</u>	<u>–</u>
	<u><u>435</u></u>	<u><u>–</u></u>	<u><u>1,623</u></u>	<u><u>–</u></u>

30. OPERATING LEASE ARRANGEMENTS**The Group as lessee:**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	7,833	7,758
In the second to fifth year inclusive	672	3,553
	<u>8,505</u>	<u>11,311</u>
	<u><u>8,505</u></u>	<u><u>11,311</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Group as lessor:

Property rental income earned during the year was HK\$2,345,000 (2002: HK\$2,522,000). The properties held have committed tenants in the range from the next half year to two years.

Notes to the Financial Statements

For the year ended 31 March 2003

ANNUAL REPORT 2003

30. OPERATING LEASE ARRANGEMENTS — continued

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,962	1,305
In the second to fifth year inclusive	126	355
	<u>2,088</u>	<u>1,660</u>

31. NON-CASH TRANSACTIONS

During the year ended 31 March 2003, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the contract of HK\$190,000.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banking facilities to subsidiaries in respect of which guarantees were given	—	—	86,740	48,000
Credit facilities from third parties in respect of which guarantees were given	31,000	27,000	—	—
	<u>31,000</u>	<u>27,000</u>	<u>86,740</u>	<u>48,000</u>

33. PLEDGE OF ASSETS

At 31 March 2003, certain leasehold land and buildings and investment properties with aggregate carrying values of HK\$4,220,000 (2002: HK\$4,340,000) and HK\$54,400,000 (2002: HK\$7,200,000) respectively were pledged to banks to secure banking facilities granted to the Group.

34. RETIREMENT BENEFITS SCHEME

- (i) The subsidiary in Singapore participates in a central provident scheme, whereby the Group is required to contribute to the scheme to fund the retirement benefits of the eligible employees. Contributions made to the scheme are calculated based on 16% of the applicable payroll costs.

- (ii) The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

35. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions, which were conducted in the ordinary course of the Group's business, with its related companies:

Name	Notes	Nature of transactions	2003	2002
			HK\$'000	HK\$'000
HKC Intown Limited	(i)	Sales to	11	9
	(i)	Internet access fee	79	17
	(ii)	Rental income	-	30
Hong Kong Communications Computer Company Limited	(i)	Sales to	-	7
	(i)	Computer software maintenance fee and purchase of computer hardwares	1,038	1,665
	(ii)	Rental income	250	310
	(iii)	Repairs and maintenance fees	215	167
Hong Kong Communications Industrial Company Limited	(i)	Purchase from	-	147
	(ii)	Rental income	-	760
Hong Kong Communications Holdings Limited	(iv)	Disposal of leasehold property	-	1,430
Hong Kong Communications Investment Limited	(iv)	Disposal of an investment property	-	13,300
HKC eFinance28 Limited	(ii)	Rental income	-	63
In Publishing Limited	(ii)	Rental income	-	10
Webradio Limited	(ii)	Rental income	72	108
	(i)	Commission income	11	-
HKC Technology Limited	(v)	Sales to	347	-
	(i)	Purchase from	2,076	-
	(ii)	Rental income	180	-
			180	-

Mr. Chan Chung Yee, Hubert and Mr. Chan Chung Yin, Roy, directors of the Company, have beneficial interests in all the above companies.

35. RELATED PARTY TRANSACTIONS — continued

Mr Tsui Hon Wing, a director of the Company, has a beneficial interest in Hong Kong Communications Industrial Company Limited.

Mr Chan Man Min, a director of the Company has a beneficial interest in HKC Intown Limited, Hong Kong Communications Computer Company Limited and Hong Kong Communications Industrial Company Limited.

The Group has 5% equity interest in HKC Technology Limited.

Notes:

- (i) The transactions are based on cost plus a percentage of profit mark-up.
- (ii) Rental income was charged based on the area used, which management considered to be an appropriate basis of allocation.
- (iii) Repairs and maintenance fees are based on actual cost incurred.
- (iv) The sale proceeds are based on the market value of the property.
- (v) The sales of obsolete inventories are based on cost.

36. SUBSIDIARIES

Particulars of the subsidiaries at 31 March 2003 are as follows:

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital	Percentage of issued/registered capital held by the Company	Principal activities
亞衛通智能系統(上海)有限公司 ASCT Technology Company Limited (Note)	PRC	PRC	Registered capital US\$610,000	80%	Development and sales of telecommunication system and other high-tech products
Generalvestor (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,000,000	100%	Property investment
HKC Group Limited	The British Virgin Islands	Hong Kong	Ordinary shares US\$100,000	100%	Investment holding

Notes to the Financial Statements

ANNUAL REPORT 2003

For the year ended 31 March 2003

36. SUBSIDIARIES — continued

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital	Percentage of issued/registered capital held by the Company	Principal activities
HKC Properties Limited	The British Virgin Islands	Hong Kong	Ordinary shares US\$30	100%	Investment holding
Hong Kong Communications Equipment Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,560	100%	Sales and distribution of mobile phones and office telephone systems
Circle Mobile Communications Limited (formerly known as Hong Kong Communications Equipment Distribution Company Limited)	Hong Kong	Hong Kong	Ordinary shares HK\$1,000,000	100%	Sale of mobile phones and other electronic products
Singapore Communications Equipment Co (Pte) Ltd.	The Republic of Singapore	Singapore	Ordinary shares S\$160,000	100%	Sales and distribution of intercom telephone systems
Superior Charm Limited	The British Virgin Islands	Hong Kong	Ordinary shares US\$1,200	100%	Investment holding

The Company directly holds the interest in HKC Group Limited. All other interests shown above are indirectly held by the Company.

None of the subsidiaries had any debt securities subsisting at 31 March 2003 or at any time during the year.

Note: The subsidiary is a sino-foreign owned enterprise.

RESULTS

	For the year ended 31 March				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
Turnover	<u>285,907</u>	<u>440,286</u>	<u>739,544</u>	<u>726,717</u>	<u>821,405</u>
Profit before taxation	4,807	38,814	45,694	26,050	13,482
Taxation	<u>(273)</u>	<u>(6,536)</u>	<u>(7,599)</u>	<u>(3,668)</u>	<u>(2,604)</u>
Profit before minority interests	4,534	32,278	38,095	22,382	10,878
Minority interests	<u>(257)</u>	<u>(2,864)</u>	<u>(3,770)</u>	<u>(1,470)</u>	<u>93</u>
Net profit for the year	<u>4,277</u>	<u>29,414</u>	<u>34,325</u>	<u>20,912</u>	<u>10,971</u>

ASSETS AND LIABILITIES

	As at 31 March				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
			Restated	Restated	
Total assets	135,485	173,853	170,695	232,722	276,980
Total liabilities	(22,142)	(24,419)	(32,010)	(33,665)	(78,380)
Minority interests	<u>(7,593)</u>	<u>(10,457)</u>	<u>(14,227)</u>	—	<u>(378)</u>
Equity	<u>105,750</u>	<u>138,977</u>	<u>124,458</u>	<u>199,057</u>	<u>198,222</u>

The Company was incorporated in the Cayman Islands on 9 April 2001 and became the holding company of the Group with effect from 12 September 2001 as a result of Group Reorganisation as set out in the prospectus dated 30 October 2001 issued by the Company.

The results of the Group for each of the three year ended 31 March 2001 and the assets and liabilities of the Group as at 31 March 1999, 2000 and 2001 have been prepared on a combined basis as if the current group structure had been in existence throughout the years concerned and have been extracted from the prospectus dated 30 October 2001 issued by the Company and been restated to conform with SSAP 9 (Revised) "Events after the balance sheet date".



Particulars of Investment Properties

ANNUAL REPORT 2003

At 31 March 2003

LOCATION	TYPE	LEASE TERM
The whole of Nos. 51 and 53 Hennessy Road (also known as Luen Sun Building) Wanchai Hong Kong	Residential and commercial	Long lease
The whole of 3rd, 4th, 7th, 10th, 11th, 12th, 15th, 17th, 22nd and 24th Floors Nos. 55 and 57 Hennessy Road (also known as Communications Building) Wanchai Hong Kong	Commercial	Long lease
Block B on 14th Floor Vita Tower No. 29 Wong Chuk Hang Road Wong Chuk Hang Hong Kong	Industrial	Long lease
Workshop 05 on 5th Floor Kwong Sang Hong Centre Nos. 151-153 Hoi Bun Road Kwun Tong Kowloon Hong Kong	Industrial	Medium-term lease
Flat C including Flat Roof on Upper Ground and 1st Floors No. 41 Seahorse Lane Beach Village Discovery Bay City Lantau Island New Territories Hong Kong	Residential	Medium-term lease