

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

South China Holdings Limited ("the Company") is incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory and underwriting services, information and technology related businesses, implementation and marketing of software applications, real estate investment and development, publishing and printing businesses, marketing and promotional services, sale of air tickets and provision of other related travel services (see Notes 18 and 19 for details).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared on the historical cost basis, except for trading and non-trading listed investments, land and buildings and investment properties, which are carried at revalued amounts.

Principal accounting policies are summarised below:

a. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together "the Group"), together with the Group's share of post-acquisition profit/loss and reserves of its associates under the equity method of accounting. Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the date of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively. Significant intra-group transactions and balances have been eliminated on consolidation.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice

Effective 1 January 2001, the Group had adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of the above new/revised SSAPs had no significant impact on the Group's financial statements, other than as described below:

i. SSAP 9 (revised): Events after the balance sheet date

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of capital and reserves on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of \$22,783,000 in capital and reserves as at 31 December 2000, which represents the proposed dividend for the year ended 31 December 2000.

ii. SSAP 26: Segment reporting

Segment information of the Group has been disclosed in Note 41 to the financial statements.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice (Continued)

iii. SSAP 30: Business combinations

Prior to 1 January 2001, goodwill was eliminated against available reserves when it arose. With the adoption of SSAP 30, the Group has adopted the transitional provisions prescribed therein. Goodwill and negative goodwill, which arose prior to 1 January 2001 will continue to be held in reserves and no restatement has been made. However, any impairment arising on such goodwill is recognised in the income statement in accordance with the newly issued SSAP 31 "Impairment of assets". Goodwill arising after 1 January 2001 is capitalised as an asset and is amortised to the income statement on a straight-line basis over its estimated economic life. Goodwill is stated at cost less accumulated amortisation and any impairment loss. Negative goodwill arising after 1 January 2001 is presented as a deduction from assets in the same balance sheet classification as goodwill and is recognised in the income statement in accordance with the accounting policy set out in Note 2.c.

The Group has treated the recognition of such impairment losses as a change in accounting policy in accordance with SSAP 2 since the Group has not previously followed policies of recognising impairment losses in respect of goodwill written off against reserves. In this connection, the Group has performed an assessment of the fair value of goodwill that had previously been eliminated against reserves as at 1 January 2000 and 31 December 2000. The Group has thus retrospectively restated its previously reported results for assessment of goodwill arising from the acquisitions of subsidiaries and associates in prior years. In this connection, the consolidated retained profit at the beginning of the years ended 31 December 2000 and 2001 was reduced by approximately \$52,807,000 and \$79,235,000 respectively and the Group's loss attributable to shareholders for the year ended 31 December 2000 was increased by \$26,428,000.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice (Continued)

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 17 "Property, plant and equipment", SSAP 18 "Revenue" and SSAP 21 "Accounting for interests in joint ventures". The Directors consider that the consequential changes made to these SSAPs do not have a material impact on the financial statements of the Group. However, with the adoption of SSAP 18 "Revenue", dividends declared by investees after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as income in the income statement. This change in accounting policy has been applied retrospectively as a prior year adjustment in the Company's financial statements. In this connection, the Company's retained profit at the beginning of the years ended 31 December 2000 and 2001 was reduced by approximately \$24,201,000 and \$50,000,000, respectively and the Company's profit attributable to shareholders for the year ended 31 December 2000 was decreased by approximately \$25,799,000.

The 2000 comparative figures presented herein incorporate the effect of adjustments, where applicable, resulting from the adoption of the new SSAPs.

c. Goodwill/Negative goodwill

Goodwill arises where the fair value of the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill arising prior to 1 January 2001 is held in reserves (see Note 2.b.iii.). Goodwill arising after 1 January 2001 is recognised as an asset in the balance sheet and is amortised on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c. Goodwill/Negative goodwill (Continued)

Negative goodwill which arose prior to 1 January 2001 is held in reserves (see Note 2.b.iii). Negative goodwill is presented as a deduction from assets in the same balance sheet classification as goodwill. Negative goodwill is recognised in the income statement as follows:

- to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortisable assets.
- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

d. Subsidiaries

A subsidiary is a company over which the Group can exercise control, which is normally evidenced when the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

e. Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Group's share of the post-acquisition results of the associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of the associates, amortisation of goodwill acquired and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f. Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contributions and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group is able to govern and control the financial and operating policies of the joint venture. If the Group can only exercise significant influence over the equity joint venture, such joint venture is accounted for as an associate.

g. Long-term investments

Long-term investments are non-trading investments in listed and unlisted equity securities and club debentures intended to be held on a long-term basis.

Long-term listed investments are stated at fair value, which is generally the market value, at the balance sheet date on an individual investment basis. Changes in fair value of those investments are recognised directly in the long-term investment revaluation reserve in the period in which the change occurs, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the income statement for the year.

Unlisted investments intended to be held on a long-term basis are stated at cost, less provision for impairment in value, as determined by the Directors, on an individual investment basis.

Income from long-term investments is accounted for to the extent of dividends received or receivable.

Upon disposal of long-term investments, any profit and loss, including any amount previously held in the long-term investment revaluation reserve in respect of those investments, is accounted for in the income statement.

h. Listed investments

Listed investments are equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in fair value are accounted for in the income statement.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or revalued amount less estimated residual value of each asset over its estimated useful life.

The orchard includes fruit trees, protective covers, water tank, ditches, roads and others. Cultivation costs during the development period of the orchard are capitalised as construction-in-progress. No depreciation is provided until the commencement of commercial production.

Other construction-in-progress represents factories and office buildings under construction and machinery and equipment pending installation. It is stated at cost, which includes the original cost of land, construction expenditures incurred, machinery and related installation costs, and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

The annual rates of depreciation of fixed assets are as follows:

Land	2% to 4% (lease terms)
Buildings	2% to 10%
Furniture and leasehold improvements	10% to 25%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 33.3%
Orchard	6.7%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and period of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

The Group has taken advantage of the transitional provisions set out in paragraph 80 of SSAP 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, and discontinued revaluing land and buildings effective from 30 September 1995.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from the fixed assets revaluation reserve to retained profit.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Investment properties

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

k. Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited, are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful lives of ten years.

The Directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically, and make provision for any impairment in value where appropriate.

l. Other non-current assets

Other non-current assets held on a long term basis are stated at cost less any impairment loss where considered necessary by the Directors.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. Property under development

Property under development include interests in land and building under development which are intended for sale upon completion. Property under development is included in non-current assets and is stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income. Net realisable value is based on estimated selling price in the ordinary course of business as determined by the Directors with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing expenses.

No depreciation is provided on property under development.

n. Land pending development

Land pending development includes all land acquired pending a definite plan to be developed for sale or long-term investment. It is stated at cost less provision for any impairment in value. Land cost includes land premium cost, site clearance costs and other directly attributable costs of bringing the land to a condition suitable for development. When the intention is clear and development has commenced, land to be developed for sale will be classified as properties under development.

o. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is calculated based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p. Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building costs and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

q. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

r. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s. Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

- (i) Sales income - income from sales of merchandise, raw materials and toolings/ moulds is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) Service income - income from provision of system integration services is recognised when the related integration services are rendered. Income from rendering of financial corporate advisory and underwriting services is recognised based on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of financial services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (iii) Commission and brokerage income - income is accrued on all brokerage transactions on a trade date basis;
- (iv) Income from trading of securities, bullion and futures contracts - income from trading of securities, bullion and futures contracts is accrued on a trade date basis;
- (v) Dividend income from listed investments is recognised when the shareholders' right to receive payment has been established;
- (vi) Income from sale of properties - revenue from the sale of properties is recognised when a legally binding agreement has been executed with the profit recognised restricted to the amount of instalments received.

If a purchaser defaults in the payment of instalments and the Group exercises its right to terminate the sale, the revenue and the related profit previously recognised are reversed and the instalments received and forfeited are credited to the income statement;

- (vii) Income from publishing and printing business - income from sales of magazines is recognised when the magazines are delivered and title has passed. Advertising income is recognised when the advertisements are published;
- (viii) Rental income - rental income is recognised when rental become due and receivable;

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s. Revenue recognition (Continued)

- (ix) Management fees - management fees are recognised when the services are rendered; and
- (x) Interest income - interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

t. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rates, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

u. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

v. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

w. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of the asset at rates based on the actual cost of specific borrowings.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

x. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

y. Subsequent events

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

z. Segments

Business segments: for management purposes the Group is organised into 6 major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 41.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Those transfers are eliminated upon consolidation.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

aa. Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

ab. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

3. TURNOVER AND REVENUE

Analysis of turnover and revenue by principal activity is as follows:

	2001	2000
	\$'000	\$'000
Trading and manufacturing unit		
- sale of merchandise	1,651,925	1,940,023
Media unit		
- publishing, printing and the provision of related services	209,080	242,319
Securities and financing unit		
- securities and commodities brokerage	59,441	144,454
- securities, bullion and commodities trading	9,643	53,027
- interest income from margin financing and money lending operations	55,638	63,139
- income from rendering of financial services	5,940	7,404
	130,662	268,024
Information and technology unit		
- information and technology related business	108,950	59,915
Property development and investment unit		
- real estate development - sale of properties	3,340	5,991
- real estate investments - rental income	5,067	3,632
	8,407	9,623
Investment holding and others unit		
- Miscellaneous	24	1,432
Total turnover	2,109,048	2,521,336
Sale of raw materials	2,316	1,714
Revenue from sales of tooling/moulds	4,125	4,632
Management fees from associates (see Note 40)	5,850	5,300
Management fees from a related company (see Note 40)	1,434	—
Interest income - other than that included in turnover	15,524	13,650
Others	1,948	9,149
Other revenue	31,197	34,445
Total revenue	2,140,245	2,555,781

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

4. RESTRUCTURING COSTS

Restructuring costs represent the following costs incurred in connection with reorganisation of certain of the Group's operations:

	2001 \$'000	2000 \$'000
Severance payment	11,629	—
Write-off of inventories	3,824	—
Other expenses related to closure of a factory	2,277	—
	17,730	—

5. REALISATION OF WARRANT SUBSCRIPTION RESERVE OF A SUBSIDIARY

During the year ended 31 December 2000, South China Brokerage Company Limited (formerly known as South China Online Limited), a subsidiary issued certain warrants and recorded a warrant subscription reserve of approximately \$63,050,000. On 17 February 2001, these warrants remained unexercised and lapsed, accordingly, the warrant subscription reserve was realised as income in the income statement.

6. (LOSS) GAIN ON INVESTMENT IN ASSOCIATES

(Loss) Gain on investment in associates comprises:

	2001 \$'000	2000 \$'000
Gain on disposal of interests in an associate	147	31,099
Income arising from amortisation of negative goodwill	686	—
	833	31,099
Provision against advances to associates	(36,025)	—
	(35,192)	31,099

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

7. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2001 \$'000	2000 \$'000
After charging:		
Interest expense on		
- bank overdrafts and loans wholly repayable within five years	20,003	25,351
- bank loans repayable beyond five years	730	921
- finance leases	259	155
- amount due to an associate	283	—
Cost of inventories sold (excluding provision for slow-moving and obsolete inventories)	1,700,054	1,940,630
Cost of financial services provided	38,627	80,254
Operating lease rentals in respect of rented premises	26,998	29,217
Depreciation		
- owned assets	77,010	80,562
- assets held under finance leases	629	2,077
Amortisation of intangible assets	162	135
Provision for slow-moving and obsolete inventories	22,359	14,511
Net loss on disposal of fixed assets	156	1,459
Staff costs (including directors' emoluments)	547,042	594,145
Auditors' remuneration	3,449	2,702
Net exchange loss	684	573
After crediting:		
Interest income from		
- bank deposits	8,572	4,931
- advances to associates (Note 19)	6,775	8,116
- trade debtors	177	603
Dividend income from		
- listed investments	5,622	1,230
- unlisted investments	—	202
Rental income, less outgoings	5,067	3,632
Management fees	7,284	5,300

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments are:

	2001 \$'000	2000 \$'000
Fees for executive directors	190	190
Fees for non-executive directors	190	162
Other emoluments for executive directors		
- Basic salaries and allowances	8,600	10,239
- Bonus *	—	306
- Contribution to pension scheme	406	431
Other emoluments for non-executive directors	—	—
	9,386	11,328

* The executive directors are entitled to a discretionary bonus.

During the year, no directors waived any emoluments and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2001	2000
Executive directors		
- \$1,000,001 - \$1,500,000	1	—
- \$1,500,001 - \$2,000,000	—	1
- \$2,500,001 - \$3,000,000	3	2
- \$3,000,001 - \$3,500,000	—	1
	4	4
Non-executive directors		
- Nil to \$1,000,000	3	4

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

- b. During the year, the five highest-paid individuals included three (2000 - three) executive directors, details of whose remuneration are included in the disclosure in Note 8.a. The details of the emoluments of the remaining two (2000 - two) highest-paid non-director individuals are:

	2001 \$'000	2000 \$'000
Basic salaries and allowances	4,970	5,178
Bonus *	4,465	1,910
Contributions to pension scheme	120	131
	9,555	7,219

* The non-director individuals are entitled to a discretionary bonus.

Analysis of emoluments paid to the aforementioned two (2000 - two) non-director individuals, by number of individuals and emolument ranges is as follows:

	2001	2000
\$2,500,001 - \$3,000,000	1	—
\$3,000,001 - \$3,500,000	—	1
\$4,000,001 - \$4,500,000	—	1
\$6,500,001 - \$7,000,000	1	—
	2	2

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

9. TAXATION

Taxation comprised:

	2001 \$'000	2000 \$'000
Company and subsidiaries -		
Provision for current taxation		
- Hong Kong profits tax		
- current year	2,939	6,474
- under-provision for prior years (a)	32,602	—
- Overseas income tax	750	1,328
(Write-back of) Provision for deferred taxation	(12)	89
	36,279	7,891
Associates -		
Provision for current taxation		
- Hong Kong profits tax	309	—
Write-back of deferred taxation	—	(175)
	309	(175)
	36,588	7,716

Hong Kong profits tax has been provided at the rate of 16% (2000 - 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries with overseas operations at tax rates applicable in the countries in which the subsidiaries operate.

Note:

- a. Wah Shing International Holdings Limited and its subsidiaries ("WSIHG") was subject to a field audit by the Hong Kong Inland Revenue Department ("HKIRD") on its transfer pricing policy in March 2001. WSIHG agreed with the HKIRD on a final settlement of approximately \$39,229,000 for additional charges in respect of the years of assessment 1994/1995 to 1999/2000, which was charged to taxation for the year ended 31 December 2001, net of \$6,627,000 already provided.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a profit of approximately \$50,202,000 (2000 - \$24,072,000) dealt with in the financial statements of the Company.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

11. DIVIDENDS

Dividends comprised:

	2001 \$'000	2000 \$'000
Interim dividend declared of 0.10 cents (2000 - 1.25 cents**) per ordinary share	1,823	22,783
Special dividend* paid of 0.0279 cents (2000 - Nil) per ordinary share	509	—
Final dividend proposed after the balance sheet date of Nil cents (2000 - 1.25 cents**) per ordinary share	—	22,783
	2,332	45,566

* On 24 August 2001, the Board of Directors declared a special dividend of 0.0279 cents to the shareholders, totalling approximately \$509,000 (2000 - Nil). The special dividend was paid in specie on the basis of one share of Jessica Publications Limited, a then wholly-owned subsidiary, for every share held by shareholders on 10 September 2001.

** The comparative figures have been adjusted to reflect the share subdivision of each ordinary share of \$0.10 being subdivided into four shares of \$0.025 each (see Note 32).

12. RETAINED PROFIT

Retained profit (consolidated) comprises:

	2001 \$'000	2000 \$'000 (Restated - Notes 2 & 43)
Company and subsidiaries	195,446	198,283
Associates	(28,679)	(40,809)
	166,767	157,474

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately \$187,031,000 (2000 - \$68,941,000) and on the weighted average number of approximately 1,822,874,000 shares (2000 - 1,822,652,000 shares, after adjusting for the effect of share subdivision as mentioned in Note 32) in issue during the year.

Diluted loss per share is not shown as there is no dilutive effect in either year.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

14. FIXED ASSETS

a. Movements in fixed assets (consolidated) were:

	2001							2000	
	Land and buildings (b)	Furniture and leasehold improvements	Machinery and equipment	Moulds and tools	Motor vehicles and vessels	Orchard	Construction-in-progress (c)		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Total \$'000	
Cost or Valuation									
Beginning of year	400,953	260,425	317,900	24,227	32,360	15,843	19,515	1,071,223	838,192
Additions	5,956	18,329	8,710	708	1,107	—	8,045	42,855	117,873
Attributable to acquisition of subsidiaries	—	—	279	—	—	—	—	279	32,129
Disposals	(70)	(5,586)	(437)	(52)	(1,361)	—	(120)	(7,626)	(16,133)
Attributable to disposal of subsidiaries	—	—	(1,253)	—	—	—	—	(1,253)	—
Transfer from construction-in-progress	—	64	—	—	—	4,683	(4,747)	—	—
Transfer from investment properties	—	—	—	—	—	—	—	—	100,000
Reclassification	2,895	649	(2,880)	—	(664)	—	—	—	—
Translation adjustments	—	—	—	—	—	—	—	—	(838)
End of year	409,734	273,881	322,319	24,883	31,442	20,526	22,693	1,105,478	1,071,223
Representing:									
At cost	252,725	273,881	322,319	24,883	31,442	20,526	22,693	948,469	914,214
At professional valuation									
- 2000	100,000	—	—	—	—	—	—	100,000	100,000
- 1994	10,973	—	—	—	—	—	—	10,973	10,973
- 1992	204	—	—	—	—	—	—	204	204
- 1991	9,500	—	—	—	—	—	—	9,500	9,500
- 1989	5,220	—	—	—	—	—	—	5,220	5,220
- 1988	31,112	—	—	—	—	—	—	31,112	31,112
End of year	409,734	273,881	322,319	24,883	31,442	20,526	22,693	1,105,478	1,071,223
Accumulated depreciation and impairment									
Beginning of year	46,508	171,167	219,818	21,621	25,461	722	—	485,297	412,198
Provision for the year	11,734	31,467	29,568	1,041	2,423	1,406	—	77,639	82,639
Attributable to acquisition of subsidiaries	—	—	—	—	—	—	—	—	3,058
Disposals	(70)	(3,101)	(279)	(52)	(537)	—	—	(4,039)	(11,968)
Attributable to disposal of subsidiaries	—	—	(178)	—	—	—	—	(178)	—
Reclassification	610	480	(933)	—	(157)	—	—	—	—
Provision for impairment	10,799	3,501	16,049	47	312	—	—	30,708	—
Translation adjustments	—	—	—	—	—	—	—	—	(630)
End of year	69,581	203,514	264,045	22,657	27,502	2,128	—	589,427	485,297
Net book value									
End of year	340,153	70,367	58,274	2,226	3,940	18,398	22,693	516,051	585,926
Beginning of year	354,445	89,258	98,082	2,606	6,899	15,121	19,515	585,926	425,994

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

14. FIXED ASSETS (Continued)

b. Details of land and buildings:

The geographical locations and tenure of title are as follows:

	2001 \$'000	2000 \$'000
Hong Kong		
- medium-term leases	180,008	101,009
- long-term leases	—	98,833
The PRC		
- medium-term leases	46,237	35,773
- others *	113,908	118,830
	340,153	354,445

* This amount includes approximately \$8,130,000 (2000 - \$5,506,000) for the use of certain land in Shenzhen and Dongguan, the PRC, for which the Group is in the process of applying for the land use rights. The land use rights will be formally transferred to the Group after the remaining consideration of approximately \$5,660,000 (2000 - \$8,242,000) included in the amount disclosed in Note 36 has been paid. The balance of approximately \$77,677,000 (2000 - \$84,578,000) represents construction costs of factory buildings on such land. The remaining balance of approximately \$28,101,000 (2000 - \$28,746,000) represents the cost of certain factory buildings located in Shenzhen, the PRC on land rented for 50 years.

Certain fixed assets with a net book value of approximately \$180,008,000 (2000 - \$196,732,000) are pledged as collateral for the Group's banking facilities (see Note 39).

Certain land and buildings are stated at revalued amounts. Had those land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31 December 2001 would have been approximately \$215,653,000 (2000 - \$314,783,000).

c. Construction-in-progress primarily comprises construction costs incurred for the development of the orchard amounting to approximately \$17,721,000 (2000 - \$18,994,000).

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

15. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2001 \$'000	2000 \$'000
Beginning of year	79,459	186,528
Attributable to acquisition of subsidiaries	99,630	—
Additions	—	270
Transfer to fixed assets	—	(100,000)
Deficit on revaluation	(4,272)	(7,339)
End of year	174,817	79,459

Investment properties of approximately \$130,430,000 are stated at open market value as at 31 December 2001 as determined by FPD Savills (Hong Kong) Limited, independent qualified valuers. The remaining balance of approximately \$44,387,000 are stated at open market value as at 30 September 2001 as determined by A.G. Wilkinson & Associates, independent qualified valuers.

Certain investment properties with a net book value of approximately \$171,917,000 (2000 - \$79,459,000) are mortgaged as collateral for the Group's banking facilities (see Note 39).

The geographical locations and tenure of investment properties are as follows:

	2001 \$'000	2000 \$'000
Hong Kong		
- medium-term leases	137,567	75,459
- long-term leases	37,250	4,000
	174,817	79,459

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

16. PROPERTIES UNDER DEVELOPMENT

The geographical locations and tenure of properties under development (consolidated) are:

	2001 \$'000	2000 \$'000
Hong Kong - medium term leases	17,882	17,874

The properties under development in Hong Kong are mortgaged as collateral for the Group's banking facilities (see Note 39).

17. LAND PENDING DEVELOPMENT

The geographical locations and tenure of land pending development (consolidated) are:

	2001 \$'000	2000 \$'000
Hong Kong - long-term leases	13,402	13,402
The PRC - medium term leases *	67,233	76,783
	80,635	90,185

* As at 31 December 2001, land pending development of approximately \$23,257,000 (2000 - \$23,307,000) was held under land use rights expiring from 2043 through 2063, whilst the remaining balance of approximately \$43,976,000 (2000 - \$53,476,000) was related to land for which the Group was in the process of applying for formal land use rights.

All the land pending development located in Hong Kong is mortgaged as collateral for the Group's banking facilities (see Note 39).

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	527,702	527,702
Advances to subsidiaries	291,618	265,767
	819,320	793,469

All of the balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months, except for advances to subsidiaries of approximately \$7,000,000 (2000 - \$6,430,000) which bear interest at 3% above the Hong Kong prime lending rate.

The underlying value of investment in subsidiaries is, in the opinion of the Directors, not less than the Company's carrying value as at 31 December 2001.

Details of the principal subsidiaries as at 31 December 2001, all held indirectly by the Company, are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
<u>South China Industries Group:</u>				
South China Industries Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ Hong Kong	\$53,033,000	74.7%	Investment holding
Micon Limited	Hong Kong	\$2	74.7%	Investment holding
South China Industries Investments Limited	Hong Kong	\$92,531,436	74.7%	Investment holding
South China (Tianjin) Garment Co. Ltd. (c)	The PRC	Rmb49,132,182	44.8% (e)	Manufacturing of clothing
Tianjin South China Leather Products Co. Ltd. (c)	The PRC	Rmb9,882,115	52.3%	Manufacturing of leather products
Tianjin South China Shoes Products Co. Ltd. (c)	The PRC	Rmb36,100,200	59.8%	Manufacturing of leather footwear products

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Tianjin South China Leather Chemical Products Co. Ltd. (c)	The PRC	Rmb19,681,600	59.8%	Manufacturing of leather products
Trimwell Limited	Hong Kong	\$2	74.7%	Investment holding
Wah Shing Electronics Company Limited	Hong Kong/ The PRC	\$571,500	44.1% (e)	Manufacturing of toys
<u>Wah Shing International Holdings Group:</u>				
WSIHG (listed on The Singapore Exchange Securities Trading Limited)	Bermuda /Hong Kong	\$226,800,000	39.4% (e)	Investment holding
Buji Soft Toys Company Limited	Hong Kong	\$20 ordinary \$6,000,000 non-voting deferred shares (a)	39.4% (e)	Trading in toys
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	39.4% (e)	Manufacturing of toys
Copthorne Holdings Corporation	Republic of Panama /Hong Kong	US\$200	39.4% (e)	Property investment
Man Wah Trading Limited	Hong Kong	\$10,000	39.4% (e)	Investment in securities
Wah Shing Toys Company Limited	Hong Kong	\$2 ordinary \$3,020,002 non-voting deferred shares (b)	39.4% (e)	Trading in toys and investment holding
<u>SCIT Group:</u>				
SCIT (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ The PRC	\$68,053,000	49.1% (e)	Investment holding
South China Strategic Limited	Hong Kong	\$308,594,000	49.1% (e)	Investment holding
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	49.1% (e)	Property development and investment holding
Shanghai Zhongteng Information Network Co. Ltd. (c)	The PRC	Rmb4,600,000	32.9% (e)	Information and Technology related business

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Chongqing South China Zenith Information Technology Co. Ltd. (c)	The PRC	Rmb7,000,000	29.5% (e)	Information and Technology related business
Shenyang Shenglian Electronics Science & Technology Ltd. (c)	The PRC	Rmb4,000,000	34.3% (e)	Information and Technology related business
<u>South China Brokerage Group:</u>				
South China Brokerage Company Limited (formerly known as South China Online Limited) (listed on The Stock Exchange of Hong Kong Limited)	Hong Kong	\$121,554,000	74.5%	Investment holding
South China Capital Limited	Hong Kong	\$2	74.5%	Corporate finance advisory services
South China Commodities Limited	Hong Kong	\$10,000,000	74.5%	Commodities broking
South China Finance and Management Limited	Hong Kong	\$2	74.5%	Share dealing and provision of management services
South China Financial Credits Limited	Hong Kong	\$42,125,000	70.8%	Money lending
South China Research Limited	Hong Kong	\$600,000	74.5%	Research publications
South China Securities Limited	Hong Kong	\$10,000,000	74.5%	Securities broking and margin financing
South China Securities (UK) Limited	United Kingdom	£200,000	74.5%	Provision of securities trading services
<u>South China Media Group:</u>				
South China Media Limited	Hong Kong	\$2	100%	Provision of publishing, marketing and promotional services

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Media Online Limited	Hong Kong	\$2	100%	Provision of e-commerce consultation and management services
<i>Other subsidiaries:</i>				
Bright Come Investments Limited	Hong Kong	\$2	100%	Investment holding
Guangdong Huaxing Fruit Development Co. Ltd. (d)	The PRC	Rmb46,749,755	100%	Fruit plantation
Kitbond Investments Limited	Hong Kong	\$100	100%	Investment holding
Nanjing South China Bao Qing Jewellery Ltd. (c)	The PRC	Rmb3,083,200	60%	Manufacturing and sale of ornaments and jewellery
Shengyang Jinchang Pharmaceutical Company Limited (c)	The PRC	Rmb14,698,695	35.7% (e)	Manufacturing of medical products
Spark-inn Investments Limited	Hong Kong	\$2	100%	Property investment
Tek Lee Finance And Investment Corporation Limited	Hong Kong	\$287,498,818	100%	Investment holding
Tianjin South China Real Estate Development Co. Ltd. (c)	The PRC	Rmb43,000,000	51%	Property development

Notes:

- (a) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$5,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- (b) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$100,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- (c) These are sino-foreign equity joint ventures established in the PRC for periods of 10 to 50 years from 2004 to 2050.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

Notes: (Continued)

- (d) This is a wholly-foreign owned subsidiary established in the PRC for a period of 60 years from 1992 to 2052.
- (e) These are subsidiaries as the Group's interests in these companies are held through subsidiaries which in turn hold more than 50% of the issued voting share capital in these companies and the Group has the power to govern the financial and operating decisions.

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

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2001.

19. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) comprised:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	160,274	160,274
Shares listed in Hong Kong, at cost	65,159	109,774
Goodwill on acquisition, eliminated against reserves	(705)	(7,556)
	224,728	262,492
Share of undistributed post-acquisition results	(28,679)	(40,809)
Provision for impairment in value	(3,341)	(3,341)
	192,708	218,342
Advances to associates (a)	270,381	301,124
Provision against advances to associates	(36,025)	—
	234,356	301,124
Advances from associates	(21,434)	(19,220)
	405,630	500,246
Quoted market value of shares listed in Hong Kong	108,413	117,757

The advances from associates are unsecured, non-interest bearing and, not repayable within next twelve months.

The underlying value of the investment in associates is, in the opinion of the Directors, not less than the carrying value as at 31 December 2001.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

- a. Details of advances to associates (consolidated) are as follows:

	2001 \$'000	2000 \$'000
Firm Wise Investment Limited ("FWIL")	247,564	235,694
Fourseas.com Limited	—	51,797
Shanghai Qiao Ning Real Estate Development Co. Limited	15,335	6,894
Others	7,482	6,739
	270,381	301,124
Provision against advances to an associate	(36,025)	—
	234,356	301,124

The amounts advanced to Firm Wise Investment Limited have been used to finance its property development project in Hong Kong. The advances are unsecured, bear interest at 0.5% per annum and are not repayable within the next twelve months.

The amounts advanced to other associates are unsecured, non-interest bearing and not repayable within the next twelve months, except for the advances to Fourseas.com Limited which bore interest rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2% per annum.

- b. Details of the principal associates as at 31 December 2001, all held indirectly by the Company, are:

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Firm Wise Investment Limited (iv)	Hong Kong	14.7% (i)	Property development
Hong Kong Four Seas Tours Limited	Hong Kong	24.1%	Sale of air tickets and provision of travel-related services
Giant Riches Limited	Hong Kong	43.6%	Property development

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Nanjing South China Dafang Electric Co. Ltd. (iii)	The PRC	38.1% (ii)	Manufacturing of electrical motors
Nority International Group Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ The PRC	31.4%	Manufacturing of shoes and footwear products
Tianjin South China Tools (Holdings) Co. Ltd. (iii)	The PRC	38.1% (ii)	Manufacturing of tools

The above summary lists only the principal associates of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

- i. This is an associate as the Group's interests in this company are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in this company and the Group has significant influence over their financial and operating policies.
- ii. Prior to 1 January 1998, these companies were regarded as subsidiaries of the Group, as the Company's Directors considered they could exercise control over them. During the year ended 31 December 1998, the Group started discussions with its joint venture partners with the objective of rationalising its investments in the PRC, and as a result, the Company's Directors consider they can now only exercise significant influence over these companies and hence they have been classified as associates since that time.

During the year, the Group continued its negotiation process with its joint venture partners. In addition, legal proceedings were taken against certain joint venture partners for breach of the joint venture agreements. In the opinion of the Company's Directors and the Group's internal legal counsel, the outcome of such negotiation and legal proceedings is likely to be favourable to the Group and the Group will be able to recover at least the carrying value of its investments in these companies.

- iii. These associates are equity joint ventures established in the PRC for periods of 10 to 50 years from 2003 to 2046.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

- iv. FWIL is principally engaged in the holding of investment property. As at 31 December 2001, the carrying value of the property, as reflected in its unaudited financial statements, amounted to approximately \$1,350,000,000. The Directors have assessed the realisable value of the property, by reference to the market price of comparable buildings and advice from independent qualified valuers, and consider that the fair value of the property as at 31 December 2001 was not less than its carrying value as at that date.

A summary of the balance sheet as at 31 December 2001 of FWIL based on its unaudited financial statements and the Group's attributable interests in FWIL is as follows:

	Balance sheet
	\$'000
Investment property	1,350,000
Other assets	7,339
	<u>1,357,339</u>
Trade payables and accruals	(54,374)
Short-term bank borrowings	(25,000)
Long-term bank borrowings	(541,508)
Due to shareholders	(885,441)
	<u>(1,506,293)</u>
Net liabilities	(148,954)
Group's attributable interest	<u>(21,886)</u>

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprise:

	2001 \$'000	2000 \$'000
Investments in shares listed in Hong Kong, at market value	80,340	66,950
Unlisted investments, at cost	46,725	43,534
Provision for impairment in value	(12,214)	(5,000)
	34,511	38,534
	114,851	105,484

The underlying value of the Group's long-term investments is, in the opinion of the Directors, not less than the carrying value as at 31 December 2001.

21. LOANS AND ADVANCES

Loans and advances (consolidated) comprise:

	2001 \$'000	2000 \$'000
Loans and advances to customers	386,715	373,954
Provision for bad and doubtful debts	(100,761)	(85,727)
	285,954	288,227
Market value of collateral at the end of year	435,261	518,896

As at 31 December, 2001, certain collateral of customers was pledged to secure banking facilities granted to the Group (see Note 39).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. LOANS AND ADVANCES (Continued)

As at 31 December 2001, analysis of the maturity profile of loans and advances to customers, net of provision for bad and doubtful debts, (consolidated) by remaining periods to their contractual maturity dates is as follows:

	2001 \$'000	2000 \$'000
Repayable:		
On demand	166,415	255,412
Within three months	44,418	6,119
Within one year but over three months	60,955	17,460
Within five years but over one year	13,485	8,819
Over five years	—	417
	285,273	288,227
Portion classified in current assets	(271,788)	(278,991)
Portion classified as long-term loans and advances under non-current assets	13,485	9,236

22. INTANGIBLE ASSETS

Movements in intangible assets (consolidated) were:

	2001 \$'000	2000 \$'000
Cost:		
Beginning of year	1,619	—
Transfer from other non-current assets	—	1,619
End of year	1,619	1,619
Accumulated amortisation		
Beginning of year	135	—
Provision for the year	162	135
End of year	297	135
Beginning of year	1,484	—
End of year	1,322	1,484

Intangible assets comprise The Stock Exchange Trading Rights and Futures Exchange Trading Rights.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. OTHER NON-CURRENT ASSETS

Other non-current assets (consolidated) comprise:

	2001 \$'000	2000 \$'000
Membership in the Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,450	4,800
Others	3,546	1,399
	9,276	7,479

24. INVENTORIES

Inventories, net of provision for slow-moving and obsolete inventories (consolidated), comprise:

	2001 \$'000	2000 \$'000
Raw materials	81,020	128,188
Work-in-progress	70,115	80,835
Finished goods	66,593	62,387
	217,728	271,410

As at 31 December 2001, inventories carried at net realisable value were approximately \$6,154,000 (2000 - \$27,644,000).

Certain inventories were held under import trust receipts bank loans (see Note 39).

25. LISTED INVESTMENTS

Listed investments (consolidated) comprise:

	2001 \$'000	2000 \$'000
Listed shares, at market value		
- Hong Kong	99,620	174,881
- Others	341	668
	99,961	175,549

As at 31 December 2001, certain listed investments are pledged to secure banking facilities granted to the Group (see Note 39).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. PROPERTIES HELD FOR SALE

Properties held for sale are located in the PRC. As at 31 December 2001, properties held for sale of approximately \$24,294,000 (2000 - 10,694,000) were held under land use rights expiring in 2040, whilst the remaining balance of approximately \$28,737,000 (2000 - \$28,605,000) was related to land for which the Group was in the process of applying for formal land use rights certificate.

27. TRADE RECEIVABLES

As at 31 December 2001, an aging analysis of trade receivables, net of provision for bad and doubtful debts (consolidated) is as follows:

	2001	2000
	\$'000	\$'000
1 month to 6 months	225,563	324,784
7 months to 12 months	1,960	6,925
	227,523	331,709

Sales of goods (including software, hardware, advertising income and circulation income and the provision of system integration services) are largely on credit, except for new customers when trade deposits are normally required. The credit terms of trade debtors are defined in the respective sales agreements, usually from cash before delivery to 90 days after delivery.

The Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties.

Rental in respect of leased properties is payable by the tenants on a monthly basis.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings comprise:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Overdrafts	35,101	68,146	7,000	—
Short-term loans	321,544	255,395	—	—
Import trust receipts bank loans	70,068	94,133	—	—
	426,713	417,674	7,000	—
Representing :				
Secured	343,207	378,833	7,000	—
Unsecured	83,506	38,841	—	—
	426,713	417,674	7,000	—

As at 31 December 2001, approximately \$259,500,000 (2000 - \$179,520,000) of the short-term loans were secured by clients' listed investments and were incurred in connection with the Group's securities and commodities brokerage business. The import trust receipts bank loan were secured by inventories released under such loan. Refer to Note 39 for details of the Group's banking facilities.

29. TRADE PAYABLES

As at 31 December 2001, an aging analysis of trade payables (consolidated) is as follows:

	2001 \$'000	2000 \$'000
1 month to 6 months	479,676	484,902
7 months to 12 months	20,232	7,926
Over 12 months	10,625	14,133
	510,533	506,961

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. LONG-TERM LOANS

Details of long-term loans (secured) are:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Amounts repayable within a period				
- not exceeding one year	35,313	22,823	—	3,144
- more than one year				
but not exceeding two years	45,334	19,567	—	3,286
- more than two years				
but not exceeding five years	61,322	22,173	—	—
- over five years	32,585	2,100	—	—
	174,554	66,663	—	6,430
Less: Amounts repayable within one year included under current liabilities	(35,313)	(22,823)	—	(3,144)
	139,241	43,840	—	3,286

Refer to Note 39 for details of the Group's banking facilities.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

	2001 \$'000	2000 \$'000
Beginning of year	1,342	1,216
Translation adjustments (Write-back of) Provision for the year	— (12)	37 89
End of year	1,330	1,342

Deferred taxation represents the taxation effect of accelerated depreciation for taxation purposes.

No deferred taxation on revaluation surpluses of land and buildings (see Note 34) has been provided because the revaluations do not constitute timing differences.

As at 31 December 2001, there were unprovided deferred taxation benefits of approximately \$30,767,000 (2000 - 23,296,000), resulting from the Group's tax losses carried forward.

32. SHARE CAPITAL

Movement in share capital was:

	2001		2000	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised ordinary shares of \$0.025 each (2000 - \$0.1 before share subdivision)				
Beginning of year	1,000,000	100,000	1,000,000	100,000
Share subdivision (a)	3,000,000	—	—	—
	4,000,000	100,000	1,000,000	100,000
Issued and fully paid ordinary shares of \$0.025 each (2000 - \$0.1 before share subdivision)				
Beginning of year	455,663	45,566	455,663	45,566
Share subdivision (a)	1,366,988	—	—	—
Issue of shares (b)	750	18	—	—
End of year	1,823,401	45,584	455,663	45,566

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SHARE CAPITAL (Continued)

Notes:

- (a) On 11 July 2001, the Board of Directors proposed a share subdivision ("Share Subdivision") for all ordinary shares of the Company. In this connection, each of the ordinary shares of \$0.10 each in the share capital of the Company was subdivided into four ordinary shares of \$0.025 each. The Share Subdivision was approved at the extraordinary general meeting of shareholders held on 15 August 2001.
- (b) During the year, the issued share capital of the Company was increased by approximately \$18,000 arising from the exercise of 750,624 warrants at \$0.55 (after adjustment for the share subdivision) per share. The new shares rank *pari passu* with the existing shares (see Note 33).

33. WARRANTS AND SHARE OPTIONS

During the year, 750,624 warrants were exercised at \$0.55 (after adjustment for the share subdivision) per share and the Company issued approximately 750,624 ordinary shares. Other than the above, all outstanding warrants expired on 22 November 2001.

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

As at 31 December 2001, the Company had 65,260,000 (2000 - 65,712,000) outstanding share options (at subscription prices of \$0.22 to \$0.60 per share) (after adjustment for the share subdivision). During the year, 452,000 share options were cancelled and no share options were exercised.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. RESERVES

Movements of reserves (consolidated) were:

	2001							2000
	Share premium	Capital redemption reserve	Special reserve	Fixed asset revaluation reserve	Long-term investment revaluation reserve	Statutory reserves (a)	Cumulative translation adjustments	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year								
- as previously reported	252,840	56	492,839	11,255	(55,128)	2,785	4,429	709,076
- prior year adjustments (see Note 2.b.iii)	—	—	79,235	—	—	—	—	79,235
	252,840	56	572,074	11,255	(55,128)	2,785	4,429	788,311
Premium on issue of new shares	394	—	—	—	—	—	—	394
Goodwill arising from acquisition of subsidiaries	—	—	—	—	—	—	—	—
Goodwill arising from acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—
Negative goodwill from acquisition of additional interests in an associate	—	—	—	—	—	—	—	—
Reversal of negative goodwill upon disposal of interests in a subsidiary	—	—	—	—	—	—	—	—
Impairment of goodwill	—	—	—	—	—	—	—	—
Reversal of goodwill upon disposal of an associate	—	—	2,933	—	—	—	—	2,933
Transfer to retained profit (b)	—	—	(200,000)	—	—	—	—	(200,000)
Changes in special reserve arising from placement of warrants by a subsidiary	—	—	(46,983)	—	—	—	—	(46,983)
Net surplus (deficit) on revaluation	—	—	—	—	2,758	—	—	2,758
Reversal of long-term investment revaluation reserve upon disposal	—	—	—	—	552	—	—	552
Provisions for impairment in value of long-term listed investments	—	—	—	—	6,562	—	—	6,562
Transfer from retained profit	—	—	—	—	—	924	—	924
Translation adjustments	—	—	—	—	—	—	(1,187)	(1,187)
End of year	253,234	56	328,024	11,255	(45,256)	3,709	3,242	554,264
Company								
Beginning of year	252,840	56	486,429	—	—	—	—	739,325
Premium on issue of new shares	394	—	—	—	—	—	—	394
Transfer to retained profit (b)	—	—	(200,000)	—	—	—	—	(200,000)
End of year	253,234	56	286,529	—	—	—	—	539,719

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. RESERVES (Continued)

Notes:

a. Statutory reserves:

The subsidiaries established in the PRC are required to make appropriation from their respective retained profits to certain statutory reserve funds in accordance with PRC rules and regulations. Movements of the statutory reserve funds were:

	2001			2000
	General fund \$'000	Development fund \$'000	Total \$'000	Total \$'000
Beginning of year	859	1,926	2,785	2,381
Transfer from retained profit	462	462	924	404
End of year	1,321	2,388	3,709	2,785

The general fund can be utilised to offset prior years' losses or to increase capital on the condition that the general fund shall be maintained at a minimum of 25% of the capital after such issuance. The development fund is to be utilised for the betterment of business operations.

b. During the year, the Company transferred \$200 million from special reserve to retained profit. This transfer has no impact on the Company's or the Group's total capital and reserves or on the Company's distributable reserves.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2001	2000
	\$'000	\$'000
		(Restated - Notes 2 & 43)
Loss before taxation	(277,790)	(88,833)
Interest income	(15,524)	(13,650)
Finance costs	21,275	26,427
Realisation of warrant subscription reserve of a subsidiary	(63,050)	—
Gain on disposal of subsidiaries	(33)	(51,426)
Loss (Gain) on investment in associates	35,192	(31,099)
Loss (Gain) on disposal of long-term listed investments	1,201	(166,943)
Provision for (Write-back of) impairment in value of fixed assets and land pending development	40,258	(6,790)
Provision for impairment in value of long-term investments	18,883	130,669
Deficit on revaluation of investment properties	4,272	7,339
Amortisation of intangible assets	162	135
Impairment of goodwill	625	26,428
Share of losses of associates	21,200	40,721
Depreciation of fixed assets	77,639	82,639
Dividend income from listed investments	(5,622)	(1,230)
Dividend income from unlisted investments	—	(202)
Net loss on disposal of fixed assets	156	1,459
Decrease in inventories	53,842	21,418
Decrease (Increase) in short-term listed investments	75,588	(76,618)
Decrease (Increase) in loans and advances	2,273	(3,431)
Decrease in properties held for sale	5,768	630
Decrease in trade receivables, prepayments and deposits	126,738	97,945
(Increase) Decrease in cash held on behalf of clients	(41,631)	2,123
Increase (Decrease) in advances from associates	2,214	(4,784)
Decrease in amounts due from related companies	(459)	—
Decrease in bills payable, trade payables and accrued liabilities	(58,903)	(164,403)
Increase in other non-current payable	2,951	—
	27,225	(171,476)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- b. Details of net assets of subsidiaries acquired as a consequence of the acquisition of subsidiaries are as follows:

	2001 \$'000	2000 \$'000
Fixed assets	279	29,071
Investment properties	99,630	—
Properties held for sale	19,500	—
Inventories	978	3,947
Trade receivables	935	8,524
Prepayments and deposits	1,916	7,480
Due from former shareholders	—	3,472
Cash and bank deposits	1,362	3,134
Short-term bank borrowings	—	(8,348)
Trade payables	(2,287)	(1,928)
Accrued liabilities	(5,377)	(3,073)
Taxation payable	—	(144)
Long-term loans	(99,991)	—
Minority interests	—	(5,050)
Group's share of net assets acquired	16,945	37,085
Interest originally held by the Group	—	(29,681)
Goodwill on acquisition	625	15,515
Negative goodwill on acquisition and was recognised as income	(686)	—
Exchange losses	—	(1,545)
Consideration paid	16,884	21,374

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Net cash outflow arising from the acquisition is as follows:

	2001 \$'000	2000 \$'000
Cash and bank deposits acquired	1,362	3,134
Cash consideration paid	(16,884)	(21,374)
Net cash outflow from acquisition	(15,522)	(18,240)

C. Details of net assets of subsidiaries disposed of during the year are as follows:

	\$'000
Fixed assets	1,075
Inventories	818
Prepayments and deposits	631
Trade receivables	1,457
Cash and bank deposits	992
Trade payables	(355)
Accrued liabilities	(790)
	3,828
Less: minority interests	(1,281)
Group's share of net assets disposed of	2,547
Gain on disposal of subsidiaries	33
Consideration received/receivable	2,580
Satisfied by:	
Cash	—
Due from a related company (Note 40)	2,580
	2,580

Net cash outflow from disposal of subsidiaries during the year is as follows:

	\$'000
Cash and bank deposits disposed of	(992)
Cash consideration received	—
Net cash outflow disposal of subsidiaries	(992)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

d. Analysis of changes in financing during the years is as follows:

	Share capital (including share premium) \$'000	Short-term loans with maturities over three months and long-term bank loans \$'000	Obligations under finance leases \$'000	Minority interests \$'000	Total \$'000
1 January 2000	298,406	161,677	2,963	609,116	1,072,162
Dividends paid to minority shareholders	—	—	—	(37,303)	(37,303)
Share of losses for the year	—	—	—	(27,608)	(27,608)
Inception of finance leases	—	—	3,147	—	3,147
Repayment of capital element of finance leases	—	—	(3,517)	—	(3,517)
Contribution from minority shareholders	—	—	—	8,207	8,207
Share of minority interests in reserves	—	—	—	35,234	35,234
New loans and borrowings	—	117,406	—	—	117,406
Repayment of loans and borrowings	—	(50,760)	—	—	(50,760)
Attributable to acquisition of subsidiaries	—	8,348	—	5,050	13,398
Attributable to disposal of interests in subsidiaries	—	—	—	55,232	55,232
Attributable to acquisition of additional interests in subsidiaries	—	—	—	(13,408)	(13,408)
Exchange differences	—	—	—	(475)	(475)
31 December 2000	298,406	236,671	2,593	634,045	1,171,715
Issue of shares	412	—	—	—	412
Dividends paid to minority shareholders	—	—	—	(17,019)	(17,019)
Share of losses for the year	—	—	—	(127,347)	(127,347)
Repayment of capital element of finance leases	—	—	(2,593)	—	(2,593)
Issue of new shares of a subsidiary to minority shareholders	—	—	—	464	464
Net proceeds of right issues contributed by minority shareholders of a subsidiary	—	—	—	44,032	44,032
Increase in advance to minority interests	—	—	—	(4,721)	(4,721)
Contribution from minority shareholders	—	—	—	9,785	9,785
Share of minority interests in reserves	—	—	—	(8,111)	(8,111)
New loans and borrowings	—	7,900	—	—	7,900
Repayment of loans and borrowings	—	(37,896)	—	—	(37,896)
Attributable to acquisition of subsidiaries	—	99,991	—	—	99,991
Attributable to disposal of subsidiaries	—	—	—	(1,281)	(1,281)
Exchange differences	—	—	—	(91)	(91)
31 December 2001	298,818	306,666	—	529,756	1,135,240

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- e. Analysis of cash and cash equivalents:

	2001 \$'000	2000 \$'000
Cash and bank deposits - general bank balances	170,667	159,984
Bank overdrafts	(35,101)	(68,146)
Short-term loans with original maturities less than three months	(259,500)	(179,520)
	(123,934)	(87,682)

36. COMMITMENTS

- a. Capital commitments (consolidated):

As at 31 December 2001, the Group had capital commitments in Hong Kong and the PRC as follows:

	2001 \$'000	2000 \$'000
Contracted but not provided for		
- Purchase of fixed assets	13,009	6,418
- Acquisition of land use rights	8,331	16,617
	21,340	23,035
Authorised by the Directors but not contracted for		
- Property development projects	36,178	76,519
	57,518	99,554

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. COMMITMENTS (Continued)

b. Operating lease commitments (consolidated):

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to 2044 are as follows:

	2001 \$'000	2000 \$'000
Amounts payable		
- within one year	14,079	25,031
- within two to five years	11,506	20,884
- over five years	74,650	77,400
	100,235	123,315

c. As at 31 December 2001, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2001 \$'000	2000 \$'000
Amounts receivable due		
- within one year	5,657	2,500
- after one year but within five years	4,978	1,427
- after five years	662	—
	11,297	3,927

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

37. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprise:

- a. Guarantees given to banks:

	2001 \$'000	2000 \$'000
- Guarantees given to banks for banking facilities granted to an associate, Firm Wise Investment Limited ("FWIL") (see Note 19)	174,000	165,989
- Guarantees given to banks in connection with letters of guarantee issued by the banks	5,500	5,500
- Undertaking to a former associate for banking facilities granted to an associate	23,250	—
	202,750	171,489

- b. Outstanding litigation

As at 31 December 2001, there was outstanding litigation originally lodged in February 1999 against SCIT Group in respect of a claim for damages. The Directors believe that SCIT Group has good grounds to resist the claim because the plaintiffs failed to diligently prosecute the action. In addition, one of the defendants has successfully applied to strike off the claim against him which weakened the credibility of the plaintiffs. The Directors do not believe that SCIT Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

38. PENSION SCHEME

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group operates two pension schemes, one registered under the Occupational Retirement Scheme Ordinance ("the ORSO Scheme") and one registered under the Mandatory Provident Fund legislation ("the MPF Scheme").

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes at 5% of their basic salaries, while the Group makes monthly contributions to these schemes at 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees after 1 December 2000.

The MPF Scheme was set up on 1 December 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, the Company and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to maximum monthly earnings of \$20,000.

The Group's PRC subsidiaries contribute to a state-sponsored retirement plan approximately 12% to 30% of the basic salary of their employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate employer's contribution made by the Group was approximately \$14,598,000 (2000 - \$13,013,000) after deduction of forfeited contributions of approximately \$506,000 (2000 - \$2,815,000). As at 31 December 2001, there were no material forfeitures available to offset the Group's future contributions (2000 - Nil).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

39. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31 December 2001, the Group's banking facilities for overdrafts, loans and trade financing were secured by:

- (i) pledges over certain of the Group's land and buildings, machinery and equipment, investment properties, properties under development and land pending development with a carrying value of approximately \$369,807,000 (2000 - \$294,065,000) (see Notes 14.b, 15, 16 and 17);
- (ii) floating charges on the Group's inventories released under import trust receipts bank loans (see Note 24);
- (iii) pledges of the Group's bank deposits of approximately \$1,500,000 (2000 - \$29,000,000); and
- (iv) pledges of the listed investments of the Group and certain collateral of the clients of the Group placed on margin accounts in connection with the Group's securities and commodities brokerage business with an aggregate quoted market value as at 31 December 2001 of approximately \$447,753,000 (2000 - \$639,076,000).

40. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- a. Significant transactions with related parties are summarised below:

	2001 \$'000	2000 \$'000
Interest income received from associates (see Note 19)	6,775	8,116
Interest expense on amount due to an associate	283	—
Management fees from		
- associates (i)	5,850	5,300
- a related company (ii)	1,434	—
Staff costs received from a related company (ii)	1,958	—
Printing fee from a related company (ii)	486	—

In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) The Group charged management fees of approximately \$2,000,000 (2000 - \$2,000,000) and \$3,850,000 (2000 - \$3,300,000) to Fourseas.com Limited and Giant Riches Limited, respectively, for provision of administrative support services.
- (ii) The Group charged management fee, staff costs and printing fee to Jessica Publications Limited ("JPL"), a company in which Mr. Ng Hung Sang, Robert is a director, for provision of certain personnel, printing and administrative support services to its subsidiaries.

- b. Outstanding balances with related parties are as follows:

	Consolidated		Company		Maximum balances outstanding during the year \$'000
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	
Due from related companies - JPL	459	—	—	—	459
Anwell Profits Limited* ("Anwell") (Note 35.c)	2,580	—	—	—	2,580
	3,039	—	—	—	

* Anwell is a company majority owned by Mr. Ng Hung Sang, Robert, the Chairman of the Company.

The balances due from related companies are unsecured, non-interest bearing and have no pre-determined repayment terms.

- c. The Group has provided a guarantee of approximately \$174,000,000 (2000 - \$165,989,000) to secure the banking facilities granted to an associate (Note 37).

41. SEGMENT INFORMATION

a. Primary segment

The Group is organised into six major operating units (i) trading and manufacturing business (the "trading and manufacturing unit"); (ii) securities & financing related - business (the "securities & financing related unit"); (iii) property development and investment business (the "property development and investment unit"); (iv) information technology related business (the "information technology unit"); (v) media publishing business (the "media unit") and (vi) investment holding and others (the "investment holding and others unit").

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

Analysis by business segment is as follows:

	2001							Total \$'000
	Trading and manufacturing unit \$'000	Media unit \$'000	Securities and financing related unit \$'000	Information technology unit \$'000	Property development and investment unit \$'000	Investment holding and others unit \$'000	Elimination \$'000	
TURNOVER								
Sales to external customers	1,651,925	209,080	130,662	108,950	8,407	24	—	2,109,048
Inter-segment sales	—	11,000	7,992	—	143	14,000	(33,135)	—
	1,651,925	220,080	138,654	108,950	8,550	14,024	(33,135)	2,109,048
OPERATING RESULTS								
Segment results	(101,838)	(48,791)	11,824	(7,384)	(10,345)	(43,622)		(200,156)
Finance costs								(21,275)
Share of loss of associates								(21,200)
Loss on investment in associates								(35,192)
Gain on disposal of subsidiaries								33
Taxation								(36,588)
Loss before minority interests								(314,378)
Depreciation and amortisation	57,082	6,402	11,011	2,244	535	527		77,801
Impairment loss recognised in the income statement	60,130	12,738	35,474	3,278	13,822	13,331		138,773
OTHER INFORMATION								
Segment assets	1,043,886	66,887	872,860	52,664	597,143	823,003	(819,320)	2,637,123
Segment liabilities	537,232	338,822	510,320	26,268	477,515	7,047	(819,320)	1,077,884
Unallocated liabilities								262,868
								1,340,752
Capital expenditure	22,104	2,370	10,864	7,484	—	33		42,855

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

	2000							Elimination	Total
	Trading and manufacturing unit	Media unit	Securities and financing related unit	Information technology unit	Property development and investment unit	Investment holding and others unit			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
(Restated- Notes 2 & 43)									
TURNOVER									
Sales to external customers	1,940,023	242,319	268,024	59,915	9,623	1,432	—	2,521,336	
Inter-company sales	—	32,000	3,062	—	—	14,000	(49,062)	—	
	1,940,023	274,319	271,086	59,915	9,623	15,432	(49,062)	2,521,336	
OPERATING RESULTS									
Segment results	7,308	(31,707)	14,038	(6,528)	(9,479)	(77,842)		(104,210)	
Finance costs								(26,427)	
Share of loss of associates								(40,721)	
Loss on investments in associates								31,099	
Gain on disposal of subsidiaries								51,426	
Taxation								(7,716)	
Loss before minority interests								(96,549)	
Depreciation and amortisation	66,738	7,006	7,172	1,153	261	444		82,774	
Impairment loss recognised in the income statement	10,900	—	187,975	25,987	7,339	22,279		254,480	
OTHER INFORMATION									
Segment assets	1,286,434	90,113	871,749	36,738	531,600	898,245	(793,469)	2,921,410	
Segment liabilities	652,271	303,429	430,411	12,510	358,831	6,794	(793,469)	970,777	
Unallocated liabilities								302,454	
								1,273,231	
Capital expenditure	83,377	11,733	16,165	6,435	295	138		118,143	

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

b. Secondary segment

Turnover and loss by geographical location is determined mainly on the basis of the location where merchandise or services are delivered. An analysis by geographical location is as follows:

	2001 \$'000	2000 \$'000
Turnover		
- United States of America	1,020,969	954,409
- Europe	324,518	558,684
- The PRC and Hong Kong	612,793	767,203
- Japan	29,651	86,203
- Others	121,117	154,837
	2,109,048	2,521,336
Segment results		
- United States of America	314	20,667
- Europe	(13,174)	14,520
- The PRC and Hong Kong	(178,362)	(137,317)
- Japan	(5,997)	(348)
- Others	(2,937)	(1,732)
	(200,156)	(104,210)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

b. Secondary segment (Continued)

The Group has business operations in the PRC and Hong Kong. An analysis by geographical location is as follows:

	2001 \$'000	2000 \$'000
Capital expenditures		
- The PRC	26,946	57,112
- Hong Kong	15,909	61,031
	42,855	118,143
Assets		
- The PRC	782,841	972,469
- Hong Kong	1,854,282	1,948,941
	2,637,123	2,921,410

42. SUBSEQUENT EVENT

Subsequent to 31 December 2001, SCIT, a subsidiary of the Group, has entered into agreements with an independent third party on 22 April 2002, to effect a financial restructuring proposal of SCIT. Upon the completion of the above financial restructuring proposal, the independent third party will essentially inject HK\$66 million into SCIT.

43. COMPARATIVE FIGURES

In addition to the prior year adjustments as detailed in Note 2 of the financial statements, certain prior year comparative figures have been reclassified to conform to the current year's presentation.