Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

South China Information and Technology Limited ("the Company") is incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in information and technology related businesses, implementation and marketing of software applications, property development and investment.

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, accounting principles generally accepted in Hong Kong, 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. Principal accounting policies are summarised below:

a. Basis of presentation

The financial statements as at and for the year ended 31 December 2001 have been prepared on the going concern basis which assumes the Group will be able to meet its financial obligations when they fall due.

For the year ended 31 December 2001, the Group reported a loss attributable to shareholders of approximately $102.8 million and had a net cash outflow from operating activities of approximately $17.6 million.

As at 31 December 2001, the Group had outstanding short-term bank loans of approximately $25.9 million comprising $17.9 million overdrafts and $8 million revolving short-term loan. In addition, the Group had outstanding long-term bank loans of approximately $96.8 million of which approximately $14.1 million is repayable within one year and $82.7 million is repayable in two to ten years. Total outstanding bank loans of the Group amounted to approximately $122.7 million. All the bank borrowings are secured by the properties held by the Group. In addition, an associate had outstanding bank loans of approximately $25 million repayable in the following twelve months. The Company has provided a guarantee of $174 million to the bank for the associate's bank facilities which amount in total to $580 million. The bank facilities of the associate are secured by an investment property whose open market value, as determined by independent qualified valuers, approximated $1,350 million as at 31 December 2001.

Taking into account the facts that the outstanding bank borrowings of the Group are secured by the Group's properties and financial support is provided by an intermediate holding company to support the Group's funding needs as and when required, the Directors consider that the Group will have sufficient working capital for the ensuing twelve months. Accordingly, the financial statements have been prepared on the going concern basis.

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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 has 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 26 – Segment reporting

Segment information of the Group has been disclosed in Note 30 to the financial statements.

ii. 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 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 the assets in the same balance sheet classification as goodwill and is recognised in the income statement in accordance with accounting policy set out in Note 2.e.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

ii. SSAP 30 – Business combinations (Continued)

The Group has treated the recognition of such impairment loss as a change in accounting policy in accordance with SSAP 2 since the Group has not previously followed a policy 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 31 December 2000. The Group has thus retrospectively restated its previously reported net losses for impairment losses of goodwill arising from the acquisitions of subsidiaries in prior years. As a result, the accumulated deficit as at 31 December 2000 and the Group's loss attributable to shareholders for the year ended 31 December 2000 were increased by $10,150,000.

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 the above SSAPs do not have a material impact on the financial statements of the Group.

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

c. Basis of measurement

The financial statements have been prepared on historical cost basis, as modified by the revaluation of investment properties.

d. Basis of consolidation

The consolidated financial statements include the accounts of the Group, together with the Group's share of post-acquisition results and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

e. 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. Prior to 1 January 2001, goodwill was eliminated against available reserves when it arose. 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.

Negative goodwill which arose prior to 1 January 2001 is held in reserves (see Note 2.b.ii). Negative goodwill arising after 1 January 2001 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/amortisable assets.

- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

f. 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. 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.

h. 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.

i. Long-term investments

Long-term 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.

j. Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment loss. 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 less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Buildings	2% to 5%
Leasehold improvements	20%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Fixed assets and depreciation (Continued)

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.

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.

k. 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. 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.

l. Properties under development

Properties under development include interests in land and buildings under development which are intended for sale upon completion. Properties under development are included in non-current assets and are 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 properties under development.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. 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.

n. Intangible assets

Intangible assets, representing acquisition costs of software licenses, are stated at cost and amortised on a straight-line basis over a period of 5 years. The Company's Directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically and provision is made for any impairment in value where appropriate.

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 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.

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 cost 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s. Turnover and revenue recognition

Turnover represents (i) sales of software and hardware and provision of system integration services; (ii) income from sales of properties; and (iii) rental income from leasing of properties.

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) Income from sales of software and hardware and provision of system integration services is recognised when the merchandise is delivered and the related integration services are rendered.

(ii) Income from sales 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.

(iii) Rental income - rental income is recognised when rental becomes due and receivable.

(iv) Interest income - interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

(v) Management fees - management fees are recognised when the services are rendered.

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 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 rate 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.

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, 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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. 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.

3. 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 expense on amount due to an intermediate holding company	**19,597**	23,731
Interest expense on amount due to an associate	**283**	–
Interest income from advances to associates	**6,775**	8,116
Management fees charged by an intermediate holding company	**4,000**	4,000
Management fees from associates	**2,000**	2,000
Disposal of fixed assets at net book value to a fellow subsidiary	**–**	2,138
Rental charged by a fellow subsidiary	**–**	1,771

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

b. Outstanding balances with related parties are summarised below:

	2001	2000	Maximum balance outstanding during the year
	$'000	$'000	$'000
Due from a related company (i)	**2,580**	–	2,580
Due from an associate	**2,000**	–	2,000
Due to a fellow subsidiary	**8,700**	–	
Due to an associate	**4,636**	–	
Due to an intermediate holding company	**296,835**	293,223	

Note (i) The balance represents the amount due from Anwell Profits Limited ("Anwell"), a company incorporated in the British Virgin Islands in which Mr. Ng Hung Sang, Robert ("Mr. Robert Ng") and Mr. Ng Yuk Fung, Peter ("Mr. Peter Ng") hold 60% and 40% interests, respectively. Mr. Robert Ng is the Chairman of the Company and Mr. Peter Ng is his son.

The balance due from a related company represents the consideration receivable for the disposal of three subsidiaries to Anwell. The balance is unsecured, non-interest bearing and was repaid after the year-end.

The balance due from an associate represents the management fees receivable. The balance is unsecured, non-interest bearing and has no pre-determined repayment terms.

The balance due to a fellow subsidiary represents a deposit received.

The balance due to an associate as at 31 December 2001 represents balance with Hong Kong Four Seas Tours Limited which is unsecured, non-interest bearing and has no pre-determined repayment terms. During the year, an amount due to Four Seas Corporate Services Limited, an associate, was unsecured, bore interest at Hong Kong prime lending rate plus 2% per annum and this balance has been repaid as at year-end.

The balance due to an intermediate holding company represents advances made to the Group in order to finance its operations. The balance is unsecured, not repayable until the Group is financially capable to do so and non-interest bearing except for an amount of approximately $296,258,000 (2000 - $252,043,000) which bears interest at Hong Kong prime lending rate per annum.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Continued)

c. An intermediate holding company has provided a guarantee of approximately $23,000,000 (2000 - $10,000,000) to secure the banking facilities granted to the Group (Note 34).

d. 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 32).

e. During the year, the Group disposed of its interests in three subsidiaries namely Fortunefeel Limited, Gainful Spark Limited and Uniprosper Limited to Anwell for a total consideration of $2,580,000 and recognised a gain on disposal of approximately $33,000. These subsidiaries are principally engaged in information and technology related businesses.

f. The intermediate holding company has undertaken to provide continuing financial support and make available adequate financial resources to support the Group's funding needs as and when required.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue is as follows:

	2001 **$'000**	2000 $'000
Sales revenue from information and technology related businesses:		
– sales of software and hardware	**51,743**	42,838
– service income from system integration services	**57,207**	16,127
– others	**–**	949
Proceeds from sales of properties	**1,268**	3,014
Rental income	**2,200**	675
Others	**154**	–
Total turnover	**112,572**	63,603
Interest income	**6,981**	8,116
Management fee income (Note 3.a)	**2,000**	2,000
Other income	**2,498**	1,580
Total revenue	**124,051**	75,299

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. GAIN ON DISPOSAL OF AN ASSOCIATE

On 18 June 2001, the Group, Fourseas.com Limited ("FS"), a then associate, and Giant Glory Assets Limited ("GG") entered into certain agreements to effect the financial restructuring of FS ("the financial restructuring"). The financial restructuring included (i) the subscription of new shares of FS by GG, (ii) the acquisition of all the issued share capital of certain property holding companies and the acquisition of 49% of the issued share capital of certain travel business companies ("TBC") of FS by the Group, and (iii) arrangements for management services to be provided by the Group to TBC after the financial restructuring. The completion date of the financial restructuring was 3 September 2001.

The consideration for the new shares of FS subscribed for by GG was $70 million, which was applied to repay the outstanding loans advanced by the Group to FS at the completion date.

In connection with the subscription of new shares in FS by GG, the Group's interest in FS was diluted from approximately 44.5% to 4.4%. At the same time, the Group disposed of its remaining 4.4% interest in FS for approximately $9,955,000. On the completion date, the Group acquired all the issued share capital of certain property holding companies and 49% of the issued share capital of certain TBC for $15 million. In this connection, the Group recognised a net gain on disposal of an associate of approximately $833,000.

As part of the financial restructuring, the Group was appointed by TBC as the manager to provide all management services to TBC for a term of six years commencing from the completion date. As consideration for the provision of the management services by the Group, TBC is required to pay the Group an annual management fee of $2 million for the first 12 months and thereafter the fee is to be increased annually at a rate equivalent to the increase in Composite CPI plus an increase equivalent to 0.5% of the increase in trading turnover of the TBC.

In addition, the Group shall be solely responsible for the operating losses of TBC incurred during the 12 months from the completion date.

Moreover, the Group granted a put option to FS to sell the remaining 51% equity interest in TBC to the Group within 365 days from the completion date for $8 million. As at 31 December 2001, FS had not exercised the put option (see Note 32).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. 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:		
Cost of merchandise sold (excluding provision for slow-moving and obsolete inventories)	**86,758**	54,835
Interest on		
– bank overdrafts and loans wholly repayable within five years	**1,348**	2,185
– bank loans repayable beyond five years	**1,867**	–
– amount due to an intermediate holding company (Note 3.a)	**19,597**	23,731
– amount due to an associate (Note 3.a)	**283**	–
– others	**108**	67
Operating lease rental of premises charged by		
– third parties	**3,691**	521
– a fellow subsidiary (Note 3.a)	**–**	1,771
Net loss on disposal of fixed assets	**84**	189
Depreciation of fixed assets	**2,244**	1,153
Less: amount capitalised as land pending development	**–**	(110)
	2,244	1,043
Net exchange loss	**–**	88
Management fees charged by an intermediate holding company (Note 3.a)	**4,000**	4,000
Staff costs (including directors' emoluments)	**17,094**	13,071
Impairment of intangible assets	**2,653**	–
Provision for slow-moving and obsolete inventories	**1,845**	–
Auditors' remuneration	**550**	400
After crediting:		
Interest income from		
– bank deposits	**206**	–
– advances to associates (Note 3.a)	**6,775**	8,116
Management fees (Note 3.a)	**2,000**	2,000
Net exchange gain	**5**	–

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	$'000	$'000
Fees for executive directors	**49**	40
Fees for non-executive directors	**20**	20
Other emoluments for executive directors		
– Basic salaries and allowances	**1,248**	–
– Contribution to pension scheme	**8**	–
Other emoluments for non-executive directors	**–**	–
	1,325	60

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 range is as follows:

	2001	2000
Executive directors		
– Nil to $1,000,000	**4**	6
– $1,000,001 to $1,500,000	**1**	–
Non-executive directors		
– Nil to $1,000,000	**2**	2

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

b. Details of the emoluments payable to the five highest paid individuals (including directors and other employees) are as follows:

	2001 $'000	2000 $'000
Basic salaries and allowances	**3,537**	1,817
Contributions to pension scheme	**65**	22
	3,602	1,839

The emoluments paid to the five highest paid individuals included one (2000 - Nil) executive director of the company, details of whose emoluments have been included in Note 7.a above.

Analysis of five highest paid individuals by number of individuals and emolument range is as follows:

	2001	2000
Nil to $1,000,000	**4**	5
$1,000,001 to $1,500,000	**1**	–

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

8. TAXATION

Taxation comprised:

	2001 $'000	2000 $'000
Company and subsidiaries:		
Provision for current taxation		
– Hong Kong profits tax	**–**	–
– Mainland China enterprise income tax	**106**	–
	106	–
Associates:		
Provision for current taxation		
– Hong Kong profits tax	**–**	–
	106	–

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. TAXATION (Continued)

a. Hong Kong profits tax

No Hong Kong profits tax has been provided as companies within the Group have no estimated assessable profit in Hong Kong during the year.

b. Enterprise income tax

The People's Republic of China ("Mainland China") enterprise income tax has been provided by the subsidiaries with operations in Mainland China at the applicable rates on their assessable profits.

As at 31 December 2001, there was no significant unprovided deferred taxation.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately $232,720,000 (2000 – $1,694,000) dealt with in the financial statements of the Company.

10. ACCUMULATED DEFICIT

Accumulated deficit comprises:

	2001 **$'000**	2000 $'000 (Restated- Notes 2 & 37)
Company and subsidiaries	**(525,908)**	(401,229)
Associates	**(8,537)**	(30,385)
	(534,445)	(431,614)

11. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately $102,816,000 (2000 – $48,091,000) and on the weighted average number of approximately 680,529,805 shares (2000 – 680,529,273 shares) 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 otherwise stated)

12. FIXED ASSETS

a. Movements of fixed assets (consolidated) are:

	2001				2000
	Buildings $'000	**Leasehold improvements $'000**	**Furniture and fixtures, office equipment and motor vehicles $'000**	**Total $'000**	Total $'000
Cost					
Beginning of year	–	1,119	6,945	8,064	3,695
Additions	2,698	75	4,711	7,484	6,435
Attributable to acquisition of subsidiaries	–	–	279	279	437
Attributable to disposal of subsidiaries	–	–	(1,253)	(1,253)	–
Disposal	–	–	(85)	(85)	(2,503)
End of year	2,698	1,194	10,597	14,489	8,064
Accumulated depreciation					
Beginning of year	–	166	1,621	1,787	969
Provision for the year	99	181	1,964	2,244	1,153
Attributable to disposal of subsidiaries	–	–	(178)	(178)	–
Disposal	–	–	(1)	(1)	(335)
End of year	99	347	3,406	3,852	1,787
Net book value					
End of year	2,599	847	7,191	10,637	6,277
Beginning of year	–	953	5,324	6,277	2,726

12. FIXED ASSETS (Continued)

b. Details of buildings:

The geographical locations and tenure of title are as follows:

	2001 $'000	2000 $'000
Mainland China		
– medium term leases	**2,599**	–

The buildings are mortgaged as collateral for the Group's banking facilities (see Note 34).

13. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2001 $'000	2000 $'000
Beginning of year	**34,200**	42,780
Attributable to acquisition of subsidiaries	**99,630**	–
Addition during the year	**–**	270
Deficit on revaluation	**(3,400)**	(8,850)
End of year	**130,430**	34,200

Investment properties are stated at open market value as at 31 December 2001 as determined by FPD Savills (Hong Kong) Limited, independent qualified valuers. Certain investment properties with a net book value of approximately $127,530,000 (2000 - $34,200,000) are mortgaged as collateral for the Group's banking facilities (see Note 34).

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

	2001 $'000	2000 $'000
Hong Kong		
– medium-term leases	**93,180**	30,200
– long-term leases	**37,250**	4,000
	130,430	34,200

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES

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

	2001 $'000	2000 $'000
Unlisted shares, at cost	**94,499**	94,499
Advances to subsidiaries	**244,227**	251,034
	338,726	345,533
Less: Provision for impairment in value	**(311,613)**	(80,259)
	27,113	265,274

The outstanding balances with subsidiaries are unsecured, non-interest bearing and are not repayable within the next twelve months.

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

As at 31 December 2001, the Company has given guarantees of approximately $124,423,000 (2000 - $12,645,000) to secure banking facilities of certain subsidiaries (Note 32).

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/ paid-up capital	Percentage of equity interest held	Principal activities
Canada Oily Investment Limited	Hong Kong	$10,000	51%	Investment holding
Dongguan Taihe Garden Construction Co. Ltd.*	Mainland China	Rmb59,955,699	60%	Property development
Eastand Investments Limited	Hong Kong	$2	100%	Investment holding
Lion City Real Estate Limited	Hong Kong	$10,000	60%	Investment holding
South China Information and Technology (China) Limited	Hong Kong	$2	100%	Property holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Newbase Investments Limited	Hong Kong	$2	100%	Property holding
Qing Dao Mandarin Dragon Real Estate Development Co. Ltd.*	Mainland China	Rmb11,336,835	100%	Property development
Phipnic Investments Limited	Hong Kong	$2	100%	Property holding
South China Strategic Limited	Hong Kong	$308,593,789	100%	Investment holding
South China Strategic Property Development Limited	Hong Kong	$5,000,000	100%	Investment holding
Tsuen Wan Shing On Estate Company Limited	Hong Kong	$400,000	100%	Property holding
Universal Yield Ltd.	British Virgin Islands	US$1	100%	Investment holding
Wellscope Investments Limited	Hong Kong	$10,000	60%	Investment holding
Four Seas Travel (Holdings) Limited	Hong Kong	$20	100%	Investment holding
Everspread Development Limited	Hong Kong	$10,000	100%	Property holding
First City Limited	Hong Kong	$10,000	100%	Property holding
Glorious Dragon Investments Limited	Hong Kong	$2	100%	Property holding
Four Seas Capital Limited	Hong Kong	$2	100%	Provision of finance to group companies
Bondrobe Enterprises Limited	British Virgin Islands	US$1	100%	Investment holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Global Trinity Properties Limited	Hong Kong	$2	100%	Property holding
Kingstep Limited	Hong Kong	$10,000	100%	Property holding
Multilink Continental Limited	Hong Kong	$2	100%	Property holding
Paraford Investment Limited	Hong Kong	$2	100%	Property holding
Pioneer Faith Development Limited	Hong Kong	$10,000	100%	Property holding
Right Trinity Properties Limited	Hong Kong	$2	100%	Property holding
Power Sound Development Limited	Hong Kong	$10,000	100%	Property holding
Tamon Development Limited	Hong Kong	$10,000	100%	Property holding
Wisetime Development Limited	Hong Kong	$2	100%	Property holding
Unigainful Limited	Hong Kong	$2	100%	Property holding
Wonderful Regent Limited	Hong Kong	$2	100%	Property holding
Full Guests Hotel Investment Limited	Hong Kong	$10,000	100%	Property holding
Thousand Property Investments Limited	Hong Kong	$2	100%	Property holding
Shanghai Fudan and South China Information System Co. Ltd.*	Mainland China	Rmb10,000,000	67%	Information and Technology related business
Shanghai Zhongteng Information Network Co. Ltd.*	Mainland China	Rmb4,600,000	60%	Information and Technology related business

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Shanghai Hitti Information Technology Co. Ltd.*	Mainland China	Rmb3,100,000	60%	Information and Technology related business
South China Skytech Co. Ltd.*	Mainland China	Rmb6,000,000	66.7%	Information and Technology related business
Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd.*	Mainland China	Rmb3,500,000	65%	Information and Technology related business
South China Zenith Information Technology Co. Ltd.*	Mainland China	Rmb7,000,000	60%	Information and Technology related business
Chongqing Fortuna Information Technology Co. Ltd.*	Mainland China	Rmb3,330,000	70%	Information and Technology related business
Shenyang Leader Information Technology Co., Ltd.*	Mainland China	Rmb6,000,000	60%	Information and Technology related business
Shenyang Shenglian Electronics Science & Technology Ltd.*	Mainland China	Rmb4,000,000	70%	Information and Technology related business
Shenyang Ruixin Information Technology Co. Ltd.*	Mainland China	Rmb600,000	67%	Information and Technology related business
Shenyang Simware Information Technology Co., Ltd.*	Mainland China	Rmb4,000,000	60%	Information and Technology related business

* The Company's subsidiaries in Mainland China are sino-foreign equity joint ventures established for periods of 15 to 50 years expiring from 2007 to 2051.

14. INVESTMENT IN SUBSIDIARIES (Continued)

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.

15. INVESTMENT IN ASSOCIATES

Investment in associates comprised:

	Consolidated	
	2001	2000
	$'000	$'000
Unlisted shares, at cost	**23,283**	23,283
Shares listed in Hong Kong, at cost	**–**	44,629
Goodwill on acquisition, eliminated against reserves	**–**	(7,628)
	23,283	60,284
Share of undistributed post-acquisition losses	**(8,537)**	(30,385)
Share of net assets	**14,746**	29,899
Advances to associates	**262,899**	294,396
Provision against advances to an associate	**(28,543)**	–
Advances to associates, net	**234,356**	294,396
	249,102	324,295
Quoted market value of shares listed in Hong Kong	**–**	32,183

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

15. INVESTMENT IN ASSOCIATES (Continued)

Details of advances to associates are as follows:

	2001 $'000	2000 $'000
Firm Wise Investment Limited	**247,564**	235,694
Shanghai Qiao Ning Real Estate Development Co. Limited	**15,335**	6,895
Fourseas.com Limited	**–**	51,807
Advances to associates	**262,899**	294,396
Provision against advances to an associate	**(28,543)**	–
Advances to associates, net	**234,356**	294,396

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 at rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2% per annum.

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 ("FWIL") (a)	Hong Kong	30%	Holding of investment property
Shanghai Qiao Ning Real Estate Development Co. Limited ("SQNREDCL") (b)	Mainland China	20.4%	Property development
Hong Kong Four Seas Tours Limited ("HKFST") (c)	Hong Kong	49%	Sales of air tickets and provision of travel-related services

15. INVESTMENT IN ASSOCIATES (Continued)

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:

a. 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	**Group's attributable interest**
	$'000	$'000
Investment property	1,350,000	405,000
Other assets	7,339	2,202
	1,357,339	407,202
Trade payables and accruals	(54,374)	(16,312)
Short-term bank borrowings	(25,000)	(7,500)
Long-term bank borrowings	(541,508)	(162,453)
Due to shareholders	(885,411)	(265,623)
	(1,506,293)	(451,888)
Net liabilities	(148,954)	(44,686)

b. SQNREDCL is a sino-foreign equity joint venture incorporated in Mainland China for a period of 10 years expiring in 2003. As at 31 December 2001, the sole asset of SQNREDCL comprised a property under development located in Shanghai, Mainland China, construction of which is in progress. The Directors have assessed the realisability of the property under development by reference to advice from independent qualified valuers, and consider that the net realisable value of the property under development will not be less than its cost.

c. HKFST is one of the TBC acquired from FS pursuant to the financial restructuring of FS (see Note 5).

16. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprised:

	2001	2000
	$'000	$'000
Unlisted investment, at cost	**12,214**	9,023
Less: Provision for impairment in value	**(12,214)**	(5,000)
	–	4,023

Details of long-term investments as at 31 December 2001, held indirectly by the Company, are:

Name of company	**Place of incorporation**	**Percentage of equity interest indirectly held**	**Principal activities**
Multiplier Investment Limited	Hong Kong	41%*	Investment holding
LCT Limited	Mainland China	60%**	Information and technology related business

* The Directors are of the view that the Group has no significant influence in the management of Multiplier Investment Limited. The Group has no representation on the board of directors of Multiplier Investment Limited.

** The Directors are of the view that the Group has no control or significant influence over the financial and operating policies of LCT Limited.

17. PROPERTIES UNDER DEVELOPMENT

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

	2001	2000
	$'000	$'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 34).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. LAND PENDING DEVELOPMENT

Land pending development is located in Mainland China. As at 31 December 2001, land pending development of approximately $6,300,000 (2000 - $6,350,000) was held under land use rights expiring in 2043, 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.

19. INVENTORIES

Inventories (consolidated) comprised:

	2001 $'000	2000 $'000
Raw materials	**334**	729
Work-in-progress	**3,240**	866
Finished goods	**10,600**	4,252
	14,174	5,847
Provision for slow-moving and obsolete inventories	**(2,405)**	–
	11,769	5,847

As at 31 December 2001, there are no inventories that are stated at net realisable value.

20. TRADE RECEIVABLES

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

	2001 $'000	2000 $'000
Within three months	**9,005**	6,574
Over three months but within six months	**678**	1,343
Over six months but within twelve months	**221**	124
	9,904	8,041

Sale of software and hardware and provision of system integration services are largely on credit except for new customers. 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. 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)

21. PROPERTIES HELD FOR SALE

Properties held for sale are located in Mainland China. As at 31 December 2001, properties held for sale of approximately $18,000,000 (2000 - Nil) was held under land use rights expiring in 2042, whilst the remaining balance of approximately $28,237,000 (2000 - $28,605,000) was related to land for which the Group was in the process of applying for formal land use rights.

22. SHORT–TERM BANK BORROWINGS

Details of the short-term bank borrowings (secured) (consolidated) are:

	2001	2000
	$'000	$'000
Overdrafts	**17,921**	3,994
Short-term bank loan	**8,000**	–
	25,921	3,994

Refer to Note 34 for details of the Group's banking facilities.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. LONG-TERM BANK LOANS

Details of long-term bank loans (secured) are:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Amounts repayable within a period				
– not exceeding one year	**14,051**	7,871	**–**	3,333
– more than one year but not exceeding two years	**15,532**	4,472	**–**	2,500
– more than two years but not exceeding five years	**34,898**	1,793	**–**	–
– more than five years	**32,285**	–	**–**	–
	96,766	14,136	**–**	5,833
Less: Amounts repayable within one year included under current liabilities	**(14,051)**	(7,871)	**–**	(3,333)
	82,715	6,265	**–**	2,500

Refer to Note 34 for details of the Group's banking facilities.

24. TRADE PAYABLES

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

	2001	2000
	$'000	$'000
Within three months	**2,702**	2,400
Over three months but within six months	**228**	183
Over six months but within twelve months	**3,842**	–
Over twelve months	**1,105**	944
	7,877	3,527

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. SHARE CAPITAL

	2001 Number of shares	2001 Nominal value $'000	2000 Number of shares	2000 Nominal value $'000
Authorised (Ordinary shares of $0.1 each)	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid (Ordinary shares of $0.1 each)				
Beginning of the year	**680,529,805**	**68,053**	680,527,568	68,053
Issued during the year	**–**	**–**	2,237	–
End of year	**680,529,805**	**68,053**	680,529,805	68,053

26. SHARE OPTIONS

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 on or before 12 October 2007 at initial subscription prices of $0.51 to $1.28 per share (subject to adjustments), 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 Company's 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.

Movements of share options during the year were as follows:

Date of grant	Exercise period	Subscription price per share $	Beginning of year	Number of shares: Granted during the year	Number of shares: Cancelled during the year	Number of shares: Exercised during the year	End of year
23 February 2000	23 February 2001 to 12 October 2007	1.28	2,770,000	–	270,000	–	2,500,000
14 April 2000	14 April 2001 to 12 October 2007	1.28	500,000	–	–	–	500,000
22 August 2000	22 August 2001 to 12 October 2007	0.51	32,000,000	–	–	–	32,000,000
18 September 2000	18 September 2001 to 12 October 2007	0.80	1,950,000	–	–	–	1,950,000
15 February 2001	15 February 2002 to 12 October 2007	0.80	–	300,000	–	–	300,000
19 February 2001	19 February 2002 to 12 October 2007	0.80	–	200,000	–	–	200,000
26 February 2001	26 February 2002 to 12 October 2007	0.80	–	240,000	–	–	240,000
22 May 2001	22 May 2002 to 12 October 2007	0.80	–	10,000,000	–	–	10,000,000
1 June 2001	1 June 2002 to 12 October 2007	0.80	–	330,000	–	–	330,000
7 June 2001	7 June 2002 to 12 October 2007	0.80	–	290,000	–	–	290,000
			37,220,000	11,360,000	270,000	–	48,310,000

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. WARRANTS

The Company has warrants outstanding as at 31 December 2001 entitling the holders to subscribe for one share at an initial subscription price of $1.24 per share (subject to adjustments) from 28 March 2000 to 27 March 2002.

During the year, no warrants were exercised, and they expired on 27 March 2002.

28. RESERVES

Movements of reserves were:

	2001 Share premium $'000	2001 Special reserve (a) $'000	2001 Cumulative translation adjustments $'000	2001 Statutory reserves (b) $'000	2001 Total $'000	2000 (Restated - Notes 2 & 37) Total $'000
Consolidated						
Beginning of year						
– As previously reported	**276,724**	**196,317**	**1,617**	**–**	**474,658**	487,311
– Prior year adjustment (Note 2)	**–**	**10,150**	**–**	**–**	**10,150**	–
– As restated	**276,724**	**206,467**	**1,617**	**–**	**484,808**	487,311
Expenses of issuance of bonus warrants	**–**	**–**	**–**	**–**	**–**	(18)
New shares issued on exercise of bonus warrants	**–**	**–**	**–**	**–**	**–**	3
Elimination of goodwill from acquisition of interest in an associate	**–**	**–**	**–**	**–**	**–**	(5,214)
Elimination of goodwill from acquisition of interest in subsidiaries	**–**	**–**	**–**	**–**	**–**	(10,150)
Release of goodwill upon disposal of interest in an associate	**–**	**7,628**	**–**	**–**	**7,628**	2,565
Provision for impairment of goodwill previously charged against special reserve (Note 2)	**–**	**–**	**–**	**–**	**–**	10,150
Transfer from retained profit to statutory reserves	**–**	**–**	**–**	**15**	**15**	–
Translation adjustments	**–**	**–**	**455**	**–**	**455**	161
End of year	**276,724**	**214,095**	**2,072**	**15**	**492,906**	484,808
Company						
Beginning of year	**276,724**	**–**	**–**	**–**	**276,724**	276,739
Expenses of issuance of bonus warrants	**–**	**–**	**–**	**–**	**–**	(18)
New shares issued on exercise of bonus warrants	**–**	**–**	**–**	**–**	**–**	3
End of year	**276,724**	**–**	**–**	**–**	**276,724**	276,724

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. RESERVES (Continued)

Notes:

a. The special reserve of the Group represents the excess of issued share capital of a subsidiary acquired over the fair value of the shares issued by the Company pursuant to the group reorganisation in 1997.

b. Statutory reserves:

The subsidiaries established in Mainland China are required to make appropriations from their respective retained profit to certain statutory reserve funds in accordance with the laws and regulations in Mainland China. Movements of the statutory reserve funds were:

	2001			2000
	General fund $'000	**Development fund $'000**	**Total $'000**	Total $'000
Beginning of year	**–**	**–**	**–**	–
Transfer from retained profit	**10**	**5**	**15**	–
End of year	**10**	**5**	**15**	–

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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash outflow from operating activities:

	2001	2000
	$'000	$'000
		(Restated - Notes 2 & 37)
Loss before taxation	**(105,970)**	(49,139)
Interest income	**(6,981)**	(8,116)
Interest expense	**23,203**	25,983
Gain on disposal of subsidiaries	**(33)**	(4,000)
Gain on disposal of an associate	**(833)**	(31,099)
Deficit on revaluation of investment properties	**3,400**	8,850
Provision against advances to an associate	**28,543**	–
Provision for impairment in value of long-term investments	**7,214**	4,000
Provision for impairment in value of land pending development	**9,550**	462
Impairment of goodwill	**625**	10,150
Share of losses of associates	**15,332**	19,033
Depreciation of fixed assets	**2,244**	1,043
Net loss on disposal of fixed assets	**84**	189
Increase in properties under development	**(8)**	–
Decrease in land pending development	**–**	9,441
Increase in inventories	**(5,762)**	(4,278)
Increase in trade receivables	**(2,385)**	(6,193)
Decrease (Increase) in properties held for sale	**1,868**	(5,537)
Increase in prepayments, deposits and other receivables	**(3,265)**	(12,632)
Decrease in amount due from a fellow subsidiary	**–**	858
Increase in amount due from an associate	**(2,000)**	–
Increase in amount due to a fellow subsidiary	**8,700**	–
Increase in trade payables	**2,418**	1,652
Increase in accruals and deposits received	**6,492**	4,143
Net cash outflow from operating activities	**(17,564)**	(35,190)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

b. Details of net assets of subsidiaries acquired are as follows:

	2001	2000
	$'000	$'000
Investment properties	**99,630**	–
Properties held for sale	**19,500**	–
Fixed assets	**279**	437
Inventories	**978**	690
Trade receivables	**935**	1,843
Prepayments and deposits	**–**	1,187
Other receivables	**1,916**	–
Cash and bank deposits	**1,362**	2,251
Trade payables	**(2,287)**	(926)
Accruals and deposits received	**(5,377)**	(1,658)
Long-term bank loans	**(99,991)**	–
	16,945	3,824
Less: minority interests	**–**	(1,147)
Group's share of net assets acquired	**16,945**	2,677
Goodwill on acquisition	**625**	10,150
Negative goodwill on acquisition and was recognised as income	**(686)**	–
Consideration paid	**16,884**	12,827

Net cash outflow from acquisition of subsidiaries is as follows:

	2001	2000
Cash and bank deposits acquired	**1,362**	2,251
Cash consideration paid	**(16,884)**	(12,827)
Net cash outflow from acquisition of subsidiaries	**(15,522)**	(10,576)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

c. Details of net assets of subsidiaries disposed of are as follows:

	2001	2000
	$'000	$'000
Fixed assets	**1,075**	–
Inventories	**818**	–
Trade receivables	**1,457**	–
Prepayments and deposits	**21**	–
Other receivables	**610**	–
Cash and bank deposits	**992**	–
Trade payables	**(355)**	–
Accruals and deposits received	**(790)**	–
	3,828	–
Less: minority interests	**(1,281)**	–
Group's share of net assets disposed of	**2,547**	–
Gain on disposal of subsidiaries	**33**	4,000
Consideration received/receivable	**2,580**	4,000
Satisfied by:		
Cash	**–**	4,000
Amount due from a related company	**2,580**	–
	2,580	4,000
Net cash (outflow) inflow from disposal of subsidiaries is as follows:		
Cash and bank deposits disposed of	**(992)**	–
Cash consideration received	**–**	4,000
Net cash (outflow) inflow from disposal of subsidiaries	**(992)**	4,000

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

d. *Analysis of changes in financing:*

	Share capital (including share premium) $'000	Long-term bank loans $'000	Short-term bank loan $'000	Obligations under finance leases (included in accruals) $'000	Due to an intermediate holding company $'000	Due to an associate $'000	Minority interests $'000	Total $'000
As at 1 January 2000	344,792	23,327	–	51	200,398	–	44,173	612,741
Expenses of issuance of bonus warrants	(18)	–	–	–	–	–	–	(18)
New shares issued on exercise of bonus warrants	3	–	–	–	–	–	–	3
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	8,207	8,207
Attributable to acquisition of subsidiaries	–	–	–	–	–	–	1,147	1,147
Share of losses for the year	–	–	–	–	–	–	(1,048)	(1,048)
Increase in amount due to an intermediate holding company	–	–	–	–	92,825	–	–	92,825
Repayment of capital element of finance lease obligations	–	–	–	(51)	–	–	–	(51)
Repayment of long-term bank loans	–	(9,191)	–	–	–	–	–	(9,191)
Translation adjustments	–	–	–	–	–	–	166	166
As at 31 December 2000	344,777	14,136	–	–	293,223	–	52,645	704,781
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	7,670	7,670
Attributable to acquisition of subsidiaries	–	99,991	–	–	–	–	–	99,991
Attributable to disposal of subsidiaries	–	–	–	–	–	–	(1,281)	(1,281)
Share of losses for the year	–	–	–	–	–	–	(3,260)	(3,260)
Increase in amount due to an intermediate holding company	–	–	–	–	3,612	–	–	3,612
Increase in amount due to an associate	–	–	–	–	–	4,636	–	4,636
New long-term bank loans	–	1,827	–	–	–	–	–	1,827
New short-term bank loan	–	–	8,000	–	–	–	–	8,000
Repayment of long-term bank loans	–	(19,188)	–	–	–	–	–	(19,188)
Translation adjustments	–	–	–	–	–	–	359	359
As at 31 December 2001	**344,777**	**96,766**	**8,000**	**–**	**296,835**	**4,636**	**56,133**	**807,147**

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

e. Major non-cash transactions:

During the year, the Group disposed of its interests in three subsidiaries namely Fortunefeel Limited, Gainful Spark Limited and Uniprosper Limited to Anwell for a total consideration of $2,580,000 (see Note 3.e). The consideration is due from a related company.

f. Analysis of cash and cash equivalents:

	2001 **$'000**	2000 $'000
Cash and bank deposits	**17,290**	17,930
Overdrafts	**(17,921)**	(3,994)
	(631)	13,936

30. SEGMENT INFORMATION

a. Primary segment

The Group is organised into four major operating units - (i) information technology related business (the "information technology unit"); (ii) property development business (the "property development unit"); (iii) property letting business (the "property letting unit"); and (iv) investment holding and others (the "investment holding and others unit").

	2001 **$'000**	2000 $'000 (restated- Notes 2 & 37)
Turnover – external sales		
– information technology unit	**108,950**	59,914
– property development unit	**1,268**	3,014
– property letting unit	**2,200**	675
– investment holding and others unit	**154**	–
	112,572	63,603

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

	2001 **$'000**	2000 $'000 (Restated- Notes 2 & 37)
Loss attributable to shareholders		
– information technology unit	**(6,211)**	(14,479)
– property development unit	**(44,141)**	(3,465)
– property letting unit	**(6,364)**	(4,923)
– investment holding and others unit	**(46,100)**	(25,224)
	(102,816)	(48,091)
Depreciation and amortisation		
– information technology unit	**1,789**	784
– property development unit	**–**	–
– property letting unit	**–**	–
– investment holding and others unit	**455**	259
	2,244	1,043
Capital expenditures		
– information technology unit	**7,359**	5,744
– property development unit	**–**	–
– property letting unit	**–**	–
– investment holding and others unit	**125**	691
	7,484	6,435
Assets		
– information technology unit	**52,664**	36,738
– property development unit	**358,491**	383,661
– property letting unit	**131,994**	34,323
– investment holding and others unit	**24,648**	67,336
	567,797	522,058
Liabilities		
– information technology unit	**(26,268)**	(12,510)
– property development unit	**(316,946)**	(251,837)
– property letting unit	**(134,828)**	(18,374)
– investment holding and others unit	**(7,108)**	(65,445)
	(485,150)	(348,166)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. SEGMENT INFORMATION (Continued)

b. Secondary segment

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

	2001 **$'000**	2000 $'000 (Restated- Notes 2 & 37)
Turnover*		
– Mainland China	**110,217**	62,928
– Hong Kong	**2,355**	675
	112,572	63,603
Loss attributable to shareholders		
– Mainland China	**(25,125)**	(27,818)
– Hong Kong	**(77,691)**	(20,273)
	(102,816)	(48,091)
Capital expenditures		
– Mainland China	**7,359**	5,744
– Hong Kong	**125**	691
	7,484	6,435
Assets		
– Mainland China	**174,500**	167,190
– Hong Kong	**393,297**	354,868
	567,797	522,058

* Turnover by geographical location is determined mainly on the basis of the destination of delivery of merchandise or where services are delivered.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. COMMITMENTS

a. Capital commitments (consolidated):

As at 31 December 2001, the Group had the following capital commitments in respect of its property development projects in Hong Kong and Mainland China:

	2001	2000
	$'000	$'000
Authorised by the Directors but not contracted for	**76,519**	76,519

b. Operating lease commitments (consolidated):

Lease commitments in respect of rented premises under various non–cancellable operating lease agreements extending to July 2004 are as follows:

	2001	2000
	$'000	$'000
Amounts payable		
– within one year	**1,740**	852
– after one year but within five years	**1,139**	886
	2,879	1,738

At 31 December 2001, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2001	2000
	$'000	$'000
Amounts receivable due		
– within one year	**4,219**	449
– after one year but within five years	**4,669**	58
– after five years	**662**	–
	9,550	507

32. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprised:

a. Guarantees given to banks:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Guarantees given to banks for banking facilities granted to				
– Firm Wise Investment Limited ("FWIL"), an associate (see Note 3)	**174,000**	165,989	**174,000**	165,989
– Subsidiaries (see Note 14)	**–**	–	**124,423**	12,645
	174,000	165,989	**298,423**	178,634

b. During the year ended 31 December 2001, the Group granted a put option to FS, a then associate to sell the remaining 51% equity interests in TBC to the Group within 365 days from 3 September 2001 for $8 million. As at 31 December 2001, FS had not exercised the put option.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. CONTINGENT LIABILITIES (Continued)

c. Outstanding litigations

i. During the year ended 31 December 2001, a minority shareholder of a subsidiary of the Group filed a claim to the Intermediate People's Court of Dongguan, Guangdong Province, Mainland China against a subsidiary of the Group which engages in property development in Mainland China. In December 2001, the Intermediate People's Court of Dongguan delivered a judgement and ordered (1) to terminate the cooperative agreement between the subsidiary and its minority shareholder, (2) the minority shareholder to take possession of the Group's interest in the property development project, and (3) the subsidiary to receive cash and other receivables of approximately $19.2 million. Based on this judgement, the Group could result in net loss of investment of approximately $11.9 million.

In January 2002, the Group appealed to the Superior People's Court of Guangdong Province regarding the judgement delivered by the Intermediate People's Court of Dongguan, and at the same time counter claimed against the minority shareholder for damages for breach of contract and refund of investment amounts. Based on the advice of a legal counsel, the Directors believe that they have sufficient evidence and legal bases for their appeal and the Group's claim will prevail.

ii. As at 31 December 2001, the Company undertook to indemnify the shareholder of a former associate for a corporate guarantee granted by the former associate in respect of the banking facilities granted to an associate ("HNF") of the Group amounting to US$3 million (equivalent to approximately $23.3 million). Such facilities were also secured by an irrevocable standby letter of credit issued by a bank established in Mainland China and guaranteed by a former director of the former associate and three other parties. An outstanding legal claim was lodged in March 1999 by the bank against the former associate and other guarantors in respect of the borrowings of HNF of approximately $19 million. The case was adjourned and has not proceeded since 1999. It had also been in abeyance since January 2000. The Directors do not believe that the Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

iii. As at 31 December 2001, there was outstanding litigation originally lodged in February 1999 against the Group in respect of a claim for damages. The Directors believe that the 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 the Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

33. PENSION SCHEME

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group companies in Hong Kong participate in 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 30% to 90% after completing 3 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 effective 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, each of the Company and its employees makes monthly contribution 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 a maximum of monthly earnings of $20,000.

As stipulated by Mainland China rules and regulations, the Group contributes to Stated-sponsored retirement plans for its employees in Mainland China. The Group contributes to State-sponsored retirement plans at rates of approximately 12% to 30% of the basic salaries of its employees in Mainland China, and has no further obligations for the actual payments of pension or post-retirement benefits. The State-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate employer's contributions made by the Group were approximately $104,000 (2000 - $552,000) after deduction of forfeited contributions of approximately $275,000 (2000 – $82,000). As at 31 December 2001, there were no material forfeitures available to offset the Group's future contributions (2000 – Nil).

34. BANKING FACILITIES AND PLEDGES OF ASSETS

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

a. mortgages over the Group's investment properties with an aggregate net book value of approximately $127,530,000 (2000 – $34,200,000) (see Note 13);

b. mortgages over the Group's properties under development with a net book value of approximately $17,882,000 (2000 – $17,874,000) (see note 17);

c. mortgages over the Group's fixed assets with a net book value of approximately $2,599,000 (2000 – Nil) (See note 12); and

d. corporate guarantee by South China Industries Limited, an intermediate holding company, of approximately $23,000,000 (2000 – $10,000,000) (see Note 3).

35. ULTIMATE HOLDING COMPANY

The Company's directors consider South China Holdings Limited, a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company.

36. SUBSEQUENT EVENTS

The following events took place after year end:

a. At an Extraordinary General Meeting held on 28 February 2002, it was passed to reduce the issued and paid up capital of the Company to $0.01 per share by cancelling $0.09 on each of the existing shares of $0.10 in issue on 28 February 2002 (the "Capital Reduction"). The Capital Reduction is subject to certain regulatory approval. The credit arising from the Capital Reduction will be applied towards the elimination of the same amount of accumulated losses reflected in the balance sheet as at 31 December 2001. The balance of accumulated losses not being cancelled above will be applied towards the elimination of the credit balance reflected in the balance sheet as at 31 December 2001 of the share premium account of the Company. Upon the Capital Reduction becoming effective, the authorised share capital of the Company will be $100,000,000 divided into 10,000,000,000 new shares of $0.01 each.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. SUBSEQUENT EVENTS (Continued)

b. On 22 April 2002, the Company entered into agreements with an independent third party to effect a financial restructuring proposal for the Group. Upon the completion of the above financial restructuring proposal, the independent third party will essentially inject $66 million into the Company.

37. COMPARATIVE FIGURES

In addition to the prior year adjustments recorded to reflect the impairment of goodwill previously eliminated against reserves as a result of the first adoption of the transitional provisions of SSAP 30 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.