

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

South China Industries 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 the manufacturing and trading of toys, compressors, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing, property development, information technology and travel related businesses (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 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. Principal accounting policies are summarised below:

a. Basis of measurement

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

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

Effective from 1 January 2001, the Company and its subsidiaries (together "the Group") have adopted, for the first time, the following Statements of Standard Accounting Practice ("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

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)

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

i. SSAP 26 – Segment reporting

Segment information of the Group has been disclosed in Note 32 to the financial statements.

ii. SSAP 30 – Business combinations

Prior to 1 January 2001, goodwill was eliminated against available reserves when 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 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.d.

The Group treats the recognition of 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 31 December 2000. The Group has thus retrospectively restated its previously reported results for the assessment of the impairment of goodwill arising from the acquisition of subsidiaries and associates in prior years. As a result, the Group's loss attributable to shareholders for the year ended 31 December 2000 was increased by approximately \$25,987,000 and the retained profit as at 1 January 2000 and 2001 were decreased by approximately \$13,316,000 and \$39,303,000 respectively.

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)

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 year ended 31 December 2000 was reduced by approximately \$32,320,000 and the Company’s profit attributable to shareholders for the year ended 31 December 2000 was increased by approximately \$32,320,000.

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

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (“the Group”), together with the Group’s share of post-acquisition profits/losses 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 financial statements from the effective 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.

d. 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 which arose prior to 1 January 2001 is held in reserves (see Note 2.b.ii). 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 otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d. Goodwill/Negative goodwill (Continued)

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 and 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.

e. Subsidiaries

A subsidiary is a company over which the Group has control, which is normally evidenced when the Group has the power to govern the financial and operating policies of that company so as to benefit 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.

f. 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 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 otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. 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.

h. Long-term investments

Long-term investments are non-trading investments in listed and unlisted equity securities 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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 the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% to 4% (unexpired lease terms)
Buildings	2% to 5%
Furniture and leasehold improvements	20%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 25%

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 Statement of Standard Accounting Practice 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.

Construction-in-progress represents factories under construction. It is stated at cost, which includes the original cost of land, construction expenditures incurred, 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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 total 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. 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.

l. 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. 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 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.

n. 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.

o. 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p. 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.

q. Turnover and revenue recognition

Turnover comprises (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) service income from sales of software and hardware and provision of system integration services, (iii) income from sales of properties, and (iv) 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) 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 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.
- (iii) Income from sales of properties – revenue from the sales of properties are recognised when a legally binding agreement has been executed with the profit recognised restricted to the amount of instalments received.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

q. Turnover and revenue recognition (Continued)

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.

- (iv) Rental income – rental income is recognised when rental income become due and receivables.
- (v) Management fees – management fees are recognised when the services are rendered.
- (vi) Interest income – interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

r. 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 rate, 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.

s. 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.

t. Employee retirement benefits

Costs of employee retirement benefits 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 otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

u. 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.

v. 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.

w. 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.

x. Segments

Business segments: for management purposes the Group is organised into four 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 32.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

x. Segments (Continued)

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

y. 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.

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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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	2000
	\$'000	\$'000
Interest expense on amounts due to		
– an intermediate holding company	1,708	985
– fellow subsidiaries	1,142	820
– an associate	283	–
Interest income received from		
– associates	6,775	8,116
– a fellow subsidiary	1	99
Management fees charged by an intermediate holding company	16,000	14,000
Promotion and marketing fees charged by a fellow subsidiary	5,000	5,000
Management fees from		
– associates	3,925	3,650
– an intermediate holding company	120	120
– fellow subsidiaries	240	240
Disposal of fixed assets at net book value to a fellow subsidiary	–	2,138
Rental income from a fellow subsidiary	143	255
Rental charged by a fellow subsidiary	–	1,771
Brokerage fees charged by a fellow subsidiary	52	1,381

In the opinion of the Directors, the above related party transactions were carried out in the usual 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)

3. RELATED PARTY TRANSACTIONS (Continued)

b. Outstanding balances with related parties are summarised below:

	Consolidated		Company		Maximum balances outstanding during the year \$'000
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	
Due from intermediate holding company – Tek Lee Finance and Investment Corporation Limited	15,581	–	15,396	–	15,581
Due from a fellow subsidiary – South China Finance Limited**	10	–	10	–	10
Due from a related company – Anwell Profits Limited*	2,580	–	–	–	2,580
Due to intermediate holding company – Tek Lee Finance and Investment Corporation Limited	–	(3,351)	–	(3,327)	
Due to fellow subsidiaries					
South China Media Limited**	(9,877)	(4,683)	(9,877)	(5,000)	
South China Securities Limited**	(10,991)	(9,885)	–	–	
	(20,868)	(14,568)	(9,877)	(5,000)	

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Continued)

Notes:

* 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.

** These companies are subsidiaries of South China Holdings Limited, the ultimate holding company.

The balances due from (to) fellow subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms except for the amount due to South China Securities Limited, which bears interest at 4% above the Hong Kong prime lending rate.

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

The balance due from the intermediate holding company is unsecured, non-interest bearing and has 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 34).

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4. TURNOVER AND REVENUE

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

	2001	2000
	\$'000	\$'000
Manufacturing and trading		
– sales of merchandise	1,605,275	1,878,634
Information and technology related businesses	108,950	59,914
Proceeds from sales of properties	1,267	3,014
Property rental	4,654	3,260
Turnover	1,720,146	1,944,822
Sales of raw materials	2,316	1,714
Sales of tooling/mould	4,125	4,632
Management fees (Note 3.a)	4,285	4,010
Interest income	9,335	13,285
Other income	2,498	–
Other revenue	22,559	23,641
Total revenue	1,742,705	1,968,463

5. RESTRUCTURING COSTS

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

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

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6. (LOSS) GAIN ON INVESTMENT IN ASSOCIATES

(Loss) Gain on investment in associates comprised:

	2001 \$'000	2000 \$'000
Gain on disposal of Fourseas.com Limited (a)	147	31,099
Income arising from amortisation of negative goodwill (a)	686	–
	833	31,099
Provision for impairment in value of interest in an associate	–	(3,341)
Provision against advances to associates	(36,025)	–
Total	(35,192)	27,758

Note:

- (a) On 18 June 2001, certain subsidiaries, namely South China Information and Technology Limited and subsidiaries ("SCIT 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 SCIT Group, and (iii) arrangements for management services to be provided by SCIT 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 SCIT Group to FS at the completion date.

In connection with the subscription of new shares in FS by GG, SCIT Group's interest in FS was diluted from approximately 44.5% to 4.4%. At the same time, SCIT Group disposed of its remaining 4.4% interests in FS for approximately \$9,955,000. On the completion date, SCIT 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, SCIT Group recognised a net gain on disposal of an associate of approximately \$833,000.

As part of the financial restructuring, SCIT 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 SCIT Group, TBC is required to pay SCIT 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, SCIT Group shall be solely responsible for the operating losses of TBC incurred during the 12 months from the completion date.

Moreover, SCIT Group granted a put option to FS to sell the remaining 51% equity interest in TBC to SCIT Group within 365 days from the completion date at an exercise price of \$8 million. As at 31 December 2001, FS had not exercised the put option (see Note 34).

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7. LOSS BEFORE TAXATION

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

	2001	2000
	\$'000	\$'000
After charging –		
Cost of merchandise sold (excluding provision for slow-moving and obsolete inventories)	1,474,514	1,660,386
Interest on		
– bank overdrafts and loans wholly repayable within five years	14,381	19,245
– loans wholly repayable after five years	2,597	921
– amount due to an intermediate holding company (Note 3.a)	1,708	985
– amounts due to fellow subsidiaries (Note 3.a)	1,142	820
– amount due to an associate (Note 3.a)	283	–
– finance leases	–	12
Operating lease rentals of premises charged by		
– third parties	11,528	13,927
– a fellow subsidiary (Note 3.a)	–	1,771
Management fees charged by an intermediate holding company (Note 3.a)	16,000	14,000
Depreciation of fixed assets	55,956	64,779
Provision for doubtful debts	22,359	27,855
Provision for slow-moving and obsolete inventories	6,992	14,511
Net loss on disposal of fixed assets	134	1,420
Staff costs (including directors' emoluments)	374,229	391,203
Impairment of intangible assets	2,653	–
Auditors' remuneration	1,650	1,400
Net exchange loss	549	250
After crediting–		
Rental income		
– charged to third parties	4,511	3,005
– charged to a fellow subsidiary (Note 3.a)	143	255
Interest income from		
– bank deposits	2,382	4,467
– advances to associates (Note 3.a)	6,775	8,116
– advance to a fellow subsidiary (Note 3.a)	1	99
– trade debtors	177	603
Management fees (Note 3.a)	4,285	4,010

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	\$'000	\$'000
Fees for executive directors	110	140
Fees for non-executive directors	58	20
Other emoluments for executive directors		
– Basic salaries and allowances	3,886	4,559
– Bonus*	312	–
– Contributions to pension scheme	188	187
	4,554	4,906

* The executive directors are entitled to a discretionary bonus.

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

	2001	2000
Executive directors		
– Nil – \$1,000,000	4	4
– \$1,000,001 – \$1,500,000	1	–
– \$1,500,001 – \$2,000,000	–	1
– \$2,500,001 – \$3,000,000	1	–
– \$3,000,001 – \$3,500,000	–	1
	6	6
Non-executive directors		
– Nil to \$1,000,000	3	2

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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

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

	2001 \$'000	2000 \$'000
Basic salaries and allowances	4,306	4,740
Bonus*	4,642	2,450
Contributions to pension scheme	45	112
	8,993	7,302

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

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

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

During the year, no emolument of the five highest-paid employees was incurred 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 otherwise stated)

9. TAXATION

Taxation comprised:

	2001 \$'000	2000 \$'000
Company and subsidiaries:		
Provision for current taxation		
– Hong Kong profits tax		
– current year	1,797	4,975
– underprovision for prior years (a)	32,602	–
– The People's Republic of China ("the PRC") enterprise income tax	619	640
Provision for deferred taxation	–	565
	35,018	6,180
Associates:		
Provision for current taxation		
– Hong Kong profits tax	309	–
Write back of deferred taxation	–	(175)
	309	(175)
	35,327	6,005

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. The PRC enterprise income tax has been provided by the subsidiaries with operations in the PRC at the applicable rates on their assessable profits.

Note :

- Wah Shing International Holdings Limited and its subsidiaries ("WSIHG") were 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately \$782,000 (2000 – profit of approximately \$48,024,000) dealt with in the financial statements of the Company.

11. DIVIDENDS

Dividends comprised:

	2001	2000
	\$'000	\$'000
Interim dividend declared and paid during the year – Nil (2000 – 0.2 cent per share)	–	1,061

12. RETAINED PROFIT

Retained profit comprised:

	2001	2000
	\$'000	\$'000
		(Restated – Notes 2 & 39)
Company and subsidiaries	208,742	367,950
Associates	(39,792)	(62,081)
	168,950	305,869

13. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately \$136,531,000 (2000 – \$24,117,000) on the average number of approximately 530,335,000 shares (2000 – 530,335,000 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)

14. FIXED ASSETS

a. Movements of fixed assets (consolidated) are:

	2001						2000	
	Land and buildings	Furniture and leasehold improvements	Machinery and equipment	Moulds and tools	Motor vehicles and vessels	Construction-in-progress		Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Total \$'000
Cost or valuation								
Beginning of year	275,190	179,934	265,899	24,227	20,453	120	765,823	704,989
Additions	5,435	4,133	8,100	708	449	16	18,841	74,859
Attributable to acquisition of subsidiaries	-	-	279	-	-	-	279	437
Disposals	-	(1,457)	(437)	(52)	(469)	(120)	(2,535)	(14,462)
Attributable to disposal of subsidiaries	-	-	(1,253)	-	-	-	(1,253)	-
End of year	280,625	182,610	272,588	24,883	20,433	16	781,155	765,823
Representing:								
At cost	233,116	182,610	272,588	24,883	20,433	16	733,646	718,314
At professional valuation in								
- 1988	31,112	-	-	-	-	-	31,112	31,112
- 1989	5,220	-	-	-	-	-	5,220	5,220
- 1992	204	-	-	-	-	-	204	204
- 1994	10,973	-	-	-	-	-	10,973	10,973
	280,625	182,610	272,588	24,883	20,433	16	781,155	765,823
Accumulated depreciation and impairment in value								
Beginning of year	41,631	124,694	187,757	21,621	16,685	-	392,388	338,326
Provision for the year	8,983	17,597	26,786	1,041	1,549	-	55,956	64,779
Disposals	-	(1,222)	(279)	(52)	(210)	-	(1,763)	(10,717)
Attributable to disposal of subsidiaries	-	-	(178)	-	-	-	(178)	-
Impairment loss for the year	4,600	2,901	5,455	47	-	-	13,003	-
End of year	55,214	143,970	219,541	22,657	18,024	-	459,406	392,388
Net book value								
End of year	225,411	38,640	53,047	2,226	2,409	16	321,749	373,435
Beginning of year	233,559	55,240	78,142	2,606	3,768	120	373,435	366,663

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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	2000
	\$'000	\$'000
Hong Kong		
– medium-term leases	80,052	80,133
The PRC		
– medium-term leases	31,451	34,596
– others*	113,908	118,830
	225,411	233,559

* 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) disclosed in Note 33.a 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 \$91,215,000 (2000 – \$76,024,000) are mortgaged as collateral for the Group's banking facilities (see Note 36).

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 \$196,909,000 (2000 – \$205,057,000).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) are:

	2001	2000
	\$'000	\$'000
Beginning of year	79,459	95,528
Attributable to acquisition of subsidiaries	99,630	–
Additions during the year	–	270
Deficit on revaluation (Note 30)	(4,272)	(16,339)
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 36).

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

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

16. 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 are mortgaged as collateral for the Group's banking facilities (see Note 36).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. LAND PENDING DEVELOPMENT

Land pending development is located in the PRC. 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.

18. INVESTMENT IN SUBSIDIARIES

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

	2001	2000
	\$'000	\$'000
Unlisted shares, at cost	234,018	234,018
Advances to subsidiaries	855,216	857,422
Advances from subsidiaries	(485,433)	(503,463)
	603,801	587,977

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 \$296,258,000 (2000 – Nil) which bear interest at the Hong Kong prime lending rate, and advances from subsidiaries of \$34,000,000 (2000 – \$225,514,000) which bear interest at 1% over 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.

As at 31 December 2001, the Company has given guarantees of approximately \$164,500,000 (2000 – \$133,061,000) to secure banking facilities of certain subsidiaries (see Note 34).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

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
Wah Shing International Holdings Group:				
Buji Soft Toys Company Limited	Hong Kong	\$20 ordinary shares \$6,000,000 non-voting deferred shares (a)	52.8%	Trading in toys
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/The PRC	US\$1,000	52.8%	Manufacturing of toys
Copthorne Holdings Corporation	Republic of Panama/ Hong Kong	US\$200	52.8%	Property investment
Everwin Toys (Dongguan) Company Limited (c)	The PRC	\$22,500,000	52.8%	Manufacturing of toys
Grandwood Trading Limited	Hong Kong	\$2	52.8%	Investment in securities
Man Wah Trading Limited	Hong Kong	\$10,000	52.8%	Investment in securities
Shenzhen Wah Chung Toys Company Limited (d)	The PRC	\$4,000,000	42.2%(e)	Manufacturing of toys
Smart Kids Industries Limited	Hong Kong	\$100	52.8%	Trading of toys

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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
Triple Success Industrial Limited	Hong Kong	\$1,402,806	26.4%(e)	Manufacturing of moulds
Triple Success Industrial (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	26.4%(e)	Manufacturing of moulds
Polecat Industries Limited	British Virgin Islands/ Hong Kong	US\$1	52.8%	Investment holding
Wah Bo Limited	British Virgin Islands/ The PRC	US\$1,000	52.8%	Manufacturing of toys
Wah Do Plastic Manufactory (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	52.8%	Manufacturing of toys
Wah Heng Toys (Shenzhen) Company Limited (c)	The PRC	US\$6,900,000	52.8%	Manufacturing of toys
Wah Shing Toys Company Limited	Hong Kong	\$2 ordinary shares \$3,020,002 non-voting deferred shares (b)	52.8%	Trading of toys and investment holding
Creata International Limited	Hong Kong	\$4,400,000	52.8%	Manufacturing and trading of toys
Man Wah Plastics Company Limited	Hong Kong	\$2 ordinary shares \$4,500,000 Non-voting deferred shares (a)	52.8%	Trading of toys and investment holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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
Tandem Holdings Limited	British Virgin Islands	\$15,077,070	52.8%	Investment holding
Tandem Toys Limited	Hong Kong	\$20,000	52.8%	Investment holding
Wah Ngai Investments Limited	Hong Kong	\$10,000	52.8%	Investment in securities
WS Chemical Engineering Services Limited	Hong Kong/The PRC	\$2	52.8%	Manufacturing of chemicals
WSIHG (listed on The Singapore Exchange Securities Trading Limited)	Bermuda/ Hong Kong	\$226,800,000	52.8%	Investment holding
Wah Shing Toys International (BVI) Limited	British Virgin Islands/ Hong Kong	US\$1	52.8%	Investment holding
Wah Shing (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	52.8%	Investment holding
Walter Toy (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	52.8%	Manufacturing of toys
<u>South China Information and Technology Group:</u>				
South China Information and Technology Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ The PRC	\$68,053,000	65.7%	Investment holding
Canada Oily Investment Limited	Hong Kong	\$10,000	33.5%(e)	Investment holding
Dongguan Taihe Garden Construction Co Ltd. (d)	The PRC	Rmb59,955,699	39.4%(e)	Property development

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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
Eastand Investments Limited	Hong Kong	\$2	65.7%	Investment holding
Lion City Real Estate Limited	Hong Kong	\$10,000	39.4%(e)	Investment holding
South China Information and Technology (China) Limited	Hong Kong	\$2	65.7%	Property holding
Newbase Investments Limited	Hong Kong	\$2	65.7%	Property holding
Qing Dao Mandarin Dragon Real Estate Development Co. Ltd. (d)	The PRC	Rmb11,336,835	65.7%	Property development
Phipnic Investments Limited	Hong Kong	\$2	65.7%	Property holding
South China Strategic Limited	Hong Kong	\$308,593,789	65.7%	Investment holding
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	65.7%	Investment holding
Tsuen Wan Shing On Estate Company Limited	Hong Kong	\$400,000	65.7%	Property holding
Universal Yield Ltd.	British Virgin Islands/ Hong Kong	US\$1	65.7%	Investment holding
Wellscope Investments Limited	Hong Kong	\$10,000	39.4%(e)	Investment holding
Four Seas Capital Limited	Hong Kong	\$2	65.7%	Provision of finance to group companies

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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
Bondrobe Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	65.7%	Investment holding
Four Seas Travel (Holdings) Limited	Hong Kong	\$20	65.7%	Investment holding
Everspread Development Limited	Hong Kong	\$10,000	65.7%	Property holding
First City Limited	Hong Kong	\$10,000	65.7%	Property holding
Glorious Dragon Investments Limited	Hong Kong	\$2	65.7%	Property holding
Global Trinity Properties Limited	Hong Kong	\$2	65.7%	Property holding
Kingstep Limited	Hong Kong	\$10,000	65.7%	Property holding
Multilink Continental Limited	Hong Kong	\$2	65.7%	Property holding
Paraford Investment Limited	Hong Kong	\$2	65.7%	Property holding
Pioneer Faith Development Limited	Hong Kong	\$10,000	65.7%	Property holding
Right Trinity Properties Limited	Hong Kong	\$2	65.7%	Property holding
Power Sound Development Limited	Hong Kong	\$10,000	65.7%	Property holding
Taman Development Limited	Hong Kong	\$10,000	65.7%	Property holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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
Wisetime Development Limited	Hong Kong	\$2	65.7%	Property holding
Unigainful Limited	Hong Kong	\$2	65.7%	Property holding
Wonderful Regent Limited	Hong Kong	\$2	65.7%	Property holding
Full Guests Hotel Investment Limited	Hong Kong	\$10,000	65.7%	Property development
Thousand Property Investments Limited	Hong Kong	\$2	65.7%	Property holding
Shanghai Fudan and South China Information System Co. Ltd. (d)	The PRC	Rmb10,000,000	44%(e)	Information and Technology related business
Shanghai Zhongteng Information Network Co. Ltd. (d)	The PRC	Rmb4,600,000	39.4%(e)	Information and Technology related business
Shanghai Hitti Information Technology Co. Ltd. (d)	The PRC	Rmb3,100,000	39.4%(e)	Information and Technology related business
South China Skytech Co. Ltd. (d)	The PRC	Rmb6,000,000	43.8%(e)	Information and Technology related business
Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd. (d)	The PRC	Rmb3,500,000	42.7%(e)	Information and Technology related business
South China Zenith Information Technology Co. Ltd. (d)	The PRC	Rmb7,000,000	39.4%(e)	Information and Technology related business

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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 Fortuna Information Technology Co. Ltd. (d)	The PRC	Rmb3,330,000	46%(e)	Information and Technology related business
Shenyang Leader Information Technology Co., Ltd. (d)	The PRC	Rmb6,000,000	39.4%(e)	Information and Technology related business
Shenyang Shenglian Electronics Science & Technology Ltd. (d)	The PRC	Rmb4,000,000	46%(e)	Information and Technology related business
Shenyang Ruixin Information Technology Co. Ltd. (d)	The PRC	Rmb600,000	44%(e)	Information and Technology related business
Shenyang Simware Information Technology Co., Ltd. (d)	The PRC	Rmb4,000,000	39.4%(e)	Information and Technology related business
<u>Others – non-PRC:</u>				
Micon Limited	Hong Kong	\$2	100%	Investment holding
Onswin Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Investment holding
South China Industries (BVI) Limited	British Virgin Islands/ Hong Kong	US\$10,000	100%	Investment holding
Trimwell Limited	Hong Kong	\$2	100%	Investment holding
South China Industries Investments Limited	Hong Kong	\$92,531,436	100%	Investment holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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 Industries Holdings Limited	Hong Kong	\$2	100%	Investment holding
South China Leesheng Sporting Goods Company Limited	Hong Kong	\$2	100%	Trading of sport products
South China Shoes Products Company Limited	Hong Kong	\$2	100%	Trading of shoes
South China Garments Company Limited	Hong Kong	\$2	100%	Trading of garments
South China Leather Chemical Products Company (HK) Limited	Hong Kong	\$2	100%	Trading of leather chemical products
Wah Shing Electronics Company Limited	Hong Kong/The PRC	\$571,500	59%	Manufacturing of toys
Others – PRC:				
South China (Tianjin) Garment Co. Ltd. (d)	The PRC	Rmb49,132,182	60%	Manufacturing of clothing
Tianjin South China Leather Products Co. Ltd. (d)	The PRC	Rmb9,882,115	70%	Manufacturing of leather products
Tianjin South China Shoes Products Co. Ltd. (d)	The PRC	Rmb36,100,200	80%	Manufacturing of leather footwear products
Tianjin South China Li Sheng Sports Wears Co. Ltd. (d)	The PRC	Rmb9,940,167	80%	Manufacturing of sports products

Notes to the Financial Statements

(Amounts expressed in Hong Kong 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. (d)	The PRC	Rmb19,681,600	80%	Manufacturing of leather products
Tianjin South China Leather Products For Safety Co. Ltd. (d)	The PRC	Rmb3,009,400	80%	Manufacturing of leather products

- 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 distribution 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 distribution 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 wholly foreign owned subsidiaries established in the PRC for periods of 14 to 50 years from 2002 to 2044.
- d. These are sino-foreign equity joint ventures established in the PRC for periods of 10 to 50 years from 2004 to 2050.
- 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 Company's 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.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES

Investment in associates comprised:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	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	(2,596)	(7,609)	-	-
	222,837	262,439	-	-
Share of undistributed post-acquisition losses	(39,792)	(62,081)	-	-
Provision for impairment in value	(3,341)	(3,341)	-	-
	179,704	197,017	-	-
Advances to associates (a)	270,647	301,129	6,712	6,740
Provision against advances to associates (a)	(36,025)	-	(6,712)	-
	234,622	301,129	-	6,740
Advances from associates	(10,502)	(9,700)	-	-
	403,824	488,446	-	6,740
Quoted market value of shares listed in Hong Kong	108,413	117,757	N/A	N/A

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

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.

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	2000
	\$'000	\$'000
Firm Wise Investment Limited	247,564	235,694
Fourseas.com Limited	–	51,807
Shanghai Qiao Ning Real Estate Development Co. Limited	15,335	6,895
Giant Riches Mortgage Limited	1,004	–
Nanjing South China Power Capacitor Co. Ltd.	2,912	2,912
Nanjing South China Santa Machinery Co. Ltd.	1,669	1,669
Others	2,163	2,152
	270,647	301,129
Provision against advances to associates	(36,025)	–
	234,622	301,129

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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

- 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 ("FWIL") (iv)	Hong Kong	19.7% (i)	Property development
Hong Kong Four Seas Tours Limited ("HKFST")	Hong Kong	32.2%	Sale of air tickets and provision of travel-related services
Giant Riches Limited	Hong Kong	25%	Property development
Giant Riches Mortgage Limited	Hong Kong	25%	Property mortgage
Naning Huaguan Zeks Air Purification Co., Ltd. (iii)	The PRC	25%	Manufacturing of compressors
Nanjing Sanda Machinery Co. Ltd. (iii)	The PRC	38%	Manufacturing of compressors
Nanjing South China Dafang Electric Co. Ltd. (iii)	The PRC	51% (ii)	Manufacturing of electrical motors
Nanjing South China Hua Guan Compressor Ltd. (iii)	The PRC	51% (ii)	Manufacturing of compressors
Nanjing South China Power Capacitor Co. Ltd. (iii)	The PRC	51% (ii)	Manufacturing of capacitors
Nanjing South China Sanda Motor Co. Ltd. (iii)	The PRC	51% (ii)	Manufacturing of electrical motors
Nanjing South China Santa Machinery Co. Ltd. (iii)	The PRC	51% (ii)	Manufacturing of machinery
Nority International Group Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ The PRC	42.6%	Manufacturing of shoes and footwear products
Shanghai Qiao Ning Real Estate Development Co. Limited (iii)	The PRC	13.4% (i)	Property development
Tianjin South China Tools (Holdings) Co. Ltd. (iii)	The PRC	51% (ii)	Manufacturing of tools

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. 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:

- i. These are associates as the Group's interests in these companies are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in these companies 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.
- 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

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	Group's attributable interest \$'000
Investment property	1,350,000	265,950
Other assets	7,339	1,446
	<u>1,357,339</u>	<u>267,396</u>
Trade payables and accruals	(54,374)	(10,712)
Short-term bank borrowings	(25,000)	(4,925)
Long-term bank borrowings	(541,508)	(106,677)
Due to shareholders	(885,411)	(174,426)
	<u>(1,506,293)</u>	<u>(296,740)</u>
Net liabilities	(148,954)	(29,344)

20. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprised:

	2001 \$'000	2000 \$'000
Investments in shares listed in Hong Kong, at market value	48,373	32,859
Unlisted investments, at cost	12,744	9,553
Provision for impairment in value	(12,214)	(5,000)
	<u>530</u>	<u>4,553</u>
	<u>48,903</u>	<u>37,412</u>

The underlying value of long-term investments 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)

21. INVENTORIES

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

	2001	2000
	\$'000	\$'000
Raw materials	74,104	123,943
Work-in-progress	70,236	78,076
Finished goods	61,984	54,837
	206,324	256,856

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 36).

22. PROPERTIES HELD FOR SALE

Properties held for sale are located in the PRC. 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.

23. TRADE RECEIVABLES

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

	2001	2000
	\$'000	\$'000
Within to six months	152,109	236,177
Over six months but within twelve months	5,754	438
	157,863	236,615

Sales of goods 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 agreement, usually from 30 to 90 days after delivery.

Sales of software and hardware and the 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 agreement, 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)

24. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings comprised:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Overdrafts	21,827	15,002	–	7,862
Short-term bank loans	43,400	34,085	–	–
Import trust receipts bank loans	70,067	94,133	–	–
	135,294	143,220	–	7,862
Representing:				
Secured	126,937	117,586	–	7,862
Unsecured	8,357	25,634	–	–
	135,294	143,220	–	7,862

As at 31 December 2001, the import trust receipts bank loans were secured by inventories released under such loans.

25. TRADE PAYABLES

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

	2001 \$'000	2000 \$'000
Within to six months	199,270	229,449
Over six months but within twelve months	9,409	1,761
Over twelve months	4,731	4,175
	213,410	235,385

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. LONG-TERM BANK LOANS

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

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Amounts repayable within a period				
– not exceeding one year	26,608	19,679	749	–
– more than one year but not exceeding two years	28,128	16,281	788	–
– more than two years but not exceeding five years	47,274	22,172	2,004	–
– over five years	32,585	2,100	–	–
	134,595	60,232	3,541	–
Less: Amounts repayable within one year included under current liabilities	(26,608)	(19,679)	(749)	–
	107,987	40,553	2,792	–

Refer to Note 36 for details of the Group's banking facilities.

27. DEFERRED TAXATION

Movements of deferred taxation (consolidated) are:

	2001 \$'000	2000 \$'000
Beginning of year	1,330	765
Provision for net timing differences	–	565
End of year	1,330	1,330

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

No deferred taxation on revaluation surpluses of land and buildings and investment properties is provided because the revaluations do not constitute timing differences.

As at 31 December 2001, there were unprovided deferred taxation benefits of approximately \$17,034,000 (2000 – \$10,555,000), resulting from the Group's tax losses carried forward.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL

	2001		2000	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (Ordinary shares of \$0.1 each)	1,000,000	100,000	1,000,000	100,000
Issued and fully paid (Ordinary shares of \$0.1 each) Beginning and end of year	530,335	53,033	530,335	53,033

29. 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 28 July 2002, at initial subscription prices of \$0.78 and \$1.18 per share (subject to adjustment), 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 grant of the options.

Movements of share options during the year are as follows:

	2001 Number of share options '000	2000 Number of share options '000
Beginning of year	42,940	43,180
Cancelled during the year	(1,353)	(240)
End of year	41,587	42,940

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. RESERVES

Movements of reserves are:

	Share premium \$'000	Capital redemption reserve \$'000	Special reserve \$'000	Fixed assets revaluation reserve \$'000	2001 Investment properties revaluation reserve \$'000	Long-term investment revaluation reserve \$'000	Statutory reserves (a) \$'000	Cumulative translation adjustments \$'000	Total \$'000	2000 Total \$'000 (Restated – Notes 2 & 39)
Consolidated										
Beginning of year										
– As previously reported	193,410	223	134,106	40,513	24,084	-	4,024	1,586	397,946	444,296
– Prior year adjustment (Note 2)	-	-	39,303	-	-	-	-	-	39,303	13,316
– As restated	193,410	223	173,409	40,513	24,084	-	4,024	1,586	437,249	457,612
Elimination of goodwill from acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	(34,644)
Elimination of goodwill from acquisition of additional interest in an associate	-	-	-	-	-	-	-	-	-	(3,363)
Discount arising from acquisition of additional interest in associates	-	-	-	-	-	-	-	-	-	1,727
Discount written back on disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	-	(660)
Release of goodwill upon disposal of interest in an associate	-	-	5,013	-	-	-	-	-	5,013	1,672
Provision for impairment in value of goodwill previously charged against special reserve (Note 2.b)	-	-	-	-	-	-	-	-	-	25,987
Transfer from special reserve to retained profit	-	-	-	-	-	-	-	-	-	(16,704)
Transfer from retained profit to statutory reserves	-	-	-	-	-	-	388	-	388	540
Net deficit on revaluation of long-term investments	-	-	-	-	-	(1,902)	-	-	(1,902)	(8,916)
Provision for impairment in value of long-term listed investments	-	-	-	-	-	3,228	-	-	3,228	18,279
Realisation of long-term investment reserve upon disposal	-	-	-	-	-	-	-	-	-	6,072
Deficit on revaluation of investment properties	-	-	-	-	(2,695)	-	-	-	(2,695)	(10,441)
Translation adjustments	-	-	-	-	-	-	-	(299)	(299)	88
End of year	193,410	223	178,422	40,513	21,389	1,326	4,412	1,287	440,982	437,249
Company										
Beginning and end of year	193,410	223	195,775	-	-	-	-	-	389,408	389,408

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. RESERVES (Continued)

a. Statutory reserves:

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

	2001			2000
	General fund	Development fund	Total	
	\$'000	\$'000	\$'000	Total \$'000
Beginning of year	1,199	2,825	4,024	3,484
Transfer from retained profit	194	194	388	540
End of year	1,393	3,019	4,412	4,024

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)

31. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2001 \$'000	2000 \$'000 (Restated – Notes 2 & 39)
Loss before taxation	(192,698)	(44,794)
Interest income	(9,335)	(13,285)
Interest expense	20,111	21,983
Gain on disposal of subsidiaries	(33)	(51,179)
Share of loss of associates	10,981	39,514
Gain on disposal of long-term listed investments	(1,976)	(3,073)
Provision for impairment in value of fixed assets	13,003	–
Provision for impairment in value of land pending development	9,550	462
Provision for impairment in value of long-term investments	13,331	22,279
Impairment of goodwill	625	25,987
Loss (Gain) on investments in associates	35,192	(27,758)
Depreciation of fixed assets	55,956	64,779
Net loss on disposal of fixed assets	134	1,420
Decrease in inventories	50,692	21,096
Decrease (Increase) in properties held for sale	1,868	(5,537)
Decrease (Increase) in prepayments and deposits	4,241	(19,471)
Decrease (Increase) in trade receivables	78,230	(72,940)
(Increase) Decrease in amounts due from a fellow subsidiary	(10)	15,366
(Decrease) Increase in trade payables	(23,907)	84,219
Decrease in accrued liabilities	(49,148)	(72,805)
Increase in amounts due to fellow subsidiaries	6,300	112
Net cash inflow (outflow) from operating activities	23,107	(13,625)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

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

	2001	2000
	\$'000	\$'000
Fixed assets	279	437
Investment properties	99,630	–
Inventories	978	690
Properties held for sale	19,500	–
Prepayments and deposits	1,916	1,187
Trade receivables	935	1,843
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	(7,822)	–
Long-term bank loans, current portion	(92,169)	–
	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 recognised as income	(686)	–
Consideration paid	16,884	12,827
Net cash outflow from acquisition of subsidiaries is as follows:		
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)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

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

	2001 \$'000	2000 \$'000
Fixed assets	1,075	–
Inventories	818	–
Prepayments and deposits	21	–
Trade receivables	1,457	–
Other receivable	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 (see Note 3.b)	2,580	–
	2,580	4,000

Net cash (outflow) inflow from disposal of subsidiaries is as follows:

	2001 \$'000	2000 \$'000
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)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

d. Analysis of changes in financing:

	Share capital (including share premium) \$'000	Short-term bank loans \$'000	Long-term bank loans \$'000	Obligations under finance leases (included in accruals) \$'000	Minority interests \$'000	Due to intermediate holding company \$'000	Advance from associates \$'000	Total \$'000
1 January 2000	246,443	15,042	71,410	1,195	303,842	44,950	22,984	705,866
Decrease in advances from associates	-	-	-	-	-	-	(13,284)	(13,284)
Decrease in amount due to intermediate holding company	-	-	-	-	-	(41,599)	-	(41,599)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	(22,014)	-	-	(22,014)
Share of loss for the year	-	-	-	-	(26,682)	-	-	(26,682)
Attributable to acquisition of subsidiaries	-	-	-	-	1,147	-	-	1,147
Acquisition of additional interest in a subsidiary	-	-	-	-	(17,082)	-	-	(17,082)
Repayment of capital element of finance lease obligations	-	-	-	(1,195)	-	-	-	(1,195)
New short-term bank loans	-	111,440	-	-	-	-	-	111,440
Repayment of short-term bank loans	-	(92,397)	-	-	-	-	-	(92,397)
Repayment of long-term bank loans	-	-	(11,178)	-	-	-	-	(11,178)
Deficit on revaluation of investment properties	-	-	-	-	(5,898)	-	-	(5,898)
Share of goodwill from acquisition of additional interest in an associate	-	-	-	-	(1,796)	-	-	(1,796)
Share of discount written back on disposal of interest in an associate	-	-	-	-	892	-	-	892
Attributable to disposal of interest in subsidiaries	-	-	-	-	53,918	-	-	53,918
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	8,207	-	-	8,207
1 January 2001	246,443	34,085	60,232	-	294,534	3,351	9,700	648,345
Increase in advances from associates	-	-	-	-	-	-	802	802
Decrease in amount due to intermediate holding company	-	-	-	-	-	(3,351)	-	(3,351)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	(2,994)	-	-	(2,994)
Share of loss for the year	-	-	-	-	(91,494)	-	-	(91,494)
New long-term bank loans	-	-	5,827	-	-	-	-	5,827
Attributable to acquisition of subsidiaries	-	-	99,991	-	-	-	-	99,991
New short-term bank loans	-	120,378	-	-	-	-	-	120,378
Repayment of short-term bank loans	-	(111,063)	-	-	-	-	-	(111,063)
Repayment of long-term bank loans	-	-	(31,455)	-	-	-	-	(31,455)
Deficit on revaluation of investment properties	-	-	-	-	(1,577)	-	-	(1,577)
Share of net proceeds of rights issue of a subsidiary	-	-	-	-	44,032	-	-	44,032
Net deficit on revaluation of long-term investments	-	-	-	-	(1,703)	-	-	(1,703)
Provision for impairment in value of long-term listed investments	-	-	-	-	2,889	-	-	2,889
Attributable to disposal of subsidiaries	-	-	-	-	(1,281)	-	-	(1,281)
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	7,670	-	-	7,670
Translation adjustments	-	-	-	-	359	-	-	359
31 December 2001	246,443	43,400	134,595	-	250,435	-	10,502	685,375

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

e. Analysis of cash and cash equivalents:

	2001	2000
	\$'000	\$'000
Cash and bank deposits	111,311	118,243
Overdrafts	(21,827)	(15,002)
Import trust receipts bank loans	(70,067)	(94,133)
	19,417	9,108

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION

a. Primary segment

The Group is organised into four major operating units – (i) the trading and manufacturing of merchandise including toys, compressors, shoes, metal tooling, leather products, motor, machinery, capacitors and clothing (the “trading and manufacturing unit”); (ii) information technology related business (the “information technology unit”); (iii) property development and investment (the “property development unit”) and (iv) investment holding and others (the “investment holding unit”).

Analysis by business segment is as follows:

	2001				Elimination \$'000	Total \$'000
	Trading and manufacturing unit \$'000	Information technology unit \$'000	Property development unit \$'000	Investment holding unit \$'000		
TURNOVER						
Sales to external customers	1,605,275	108,950	5,921	-		1,720,146
OPERATING RESULTS						
Segment results	(69,478)	(7,384)	(10,185)	(39,400)		(126,447)
Finance costs						(20,111)
Share of loss of associates						(10,981)
Loss on investment in associates						(35,192)
Gain on disposal of subsidiaries						33
Taxation						(35,327)
Loss before minority interests						(228,025)
Depreciation	53,712	2,244	-	-		55,956
Impairment loss recognised in the income statement	13,003	3,278	9,550	13,331		39,162
OTHER INFORMATION						
Segment assets	965,630	52,664	534,901	370,408	(316,857)	1,606,746
Segment liabilities	(480,065)	(26,268)	(476,762)	(27,108)	316,857	(693,346)
Capital expenditures	11,357	7,484	-	-		18,841

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

	2000				Elimination \$'000	Total \$'000 (Restated – Notes 2 & 39)
	Trading and manufacturing unit \$'000	Information technology unit \$'000	Property development unit \$'000	Investment holding unit \$'000		
TURNOVER						
Sales to external customers	1,878,634	59,914	6,274	-		1,944,822
OPERATING RESULTS						
Segment results	9,524	(6,528)	(8,836)	(56,394)		(62,234)
Finance costs						(21,983)
Share of loss of associates						(39,514)
Gain on investment in associates						27,758
Gain on disposal of subsidiaries						51,179
Taxation						(6,005)
Loss before minority interests						(50,799)
Depreciation	63,626	1,153	-	-		64,779
Impairment loss recognised in the income statement	-	25,987	462	22,279		48,728
OTHER INFORMATION						
Segment assets	1,173,288	36,738	463,271	395,700	(290,952)	1,778,045
Segment liabilities	(595,150)	(12,510)	(357,014)	(13,638)	290,952	(687,360)
Capital expenditures	68,424	6,435	-	-		74,859

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION (Continued)

b. Secondary segment

The Group has business operations in the United States of America, Europe, the PRC and Hong Kong, Japan and other regions. An analysis by geographical location is as follows:

	2001 \$'000	2000 \$'000 (Restated – Notes 2 & 39)
Turnover*		
– The United States of America	1,020,969	954,409
– Europe	324,518	558,684
– The PRC and Hong Kong	223,891	190,692
– Japan	29,651	86,203
– Others	121,117	154,834
	1,720,146	1,944,822
Profit (Loss) from operations		
– The United States of America	314	20,667
– Europe	(13,174)	14,520
– The PRC and Hong Kong	(104,654)	(95,341)
– Japan	(5,997)	(348)
– Others	(2,936)	(1,732)
	(126,447)	(62,234)
Capital expenditures		
– The PRC	17,261	42,113
– Hong Kong	1,580	32,746
	18,841	74,859
Assets		
– The PRC	666,920	817,005
– Hong Kong	939,826	961,040
	1,606,746	1,778,045

* 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)

33. 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	4,440	6,418
– Acquisition of land use rights	5,660	8,242
	10,100	14,660
Authorised by the Directors but not contracted for		
– Property development	76,519	76,519
	86,619	91,179

b. Operating lease commitments (consolidated) are:

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

	2001 \$'000	2000 \$'000
Amounts payable		
– within one year	4,471	11,244
– after one year but within five years	9,064	13,490
– after five years	74,650	77,400
	88,185	102,134

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

34. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprised:

- a. Guarantees given to banks:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Guarantees given to banks for banking facilities granted to				
– Firm Wise Investment Limited ("FWIL"), an associate (see Note 19)	174,000	165,989	–	–
– subsidiaries (see Note 18)	–	–	164,500	133,061
	174,000	165,989	164,500	133,061

- b. During the year ended 31 December 2001, certain subsidiaries, South China Information and Technology Limited ("SCIT") and subsidiaries ("SCIT Group"), granted a put option to Fourseas.com Limited ("FS"), a then associates to sell the remaining 51% equity interest in travel business companies ("TBC") to SCIT Group within 365 days from 3 September 2001 for \$8 million. As at 31 December 2001, FS had not exercised the put option.
- c. Outstanding litigation

The Group has the following outstanding litigations relating to its investment in SCIT and SCIT Group;

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

In January 2002, SCIT 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 SCIT Group's claim will prevail.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. CONTINGENT LIABILITIES (CONTINUED)

- c. Outstanding litigation (Continued)
- (ii) As at 31 December 2001, SCIT 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 of SCIT 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 the PRC 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 the associate 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 SCIT 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 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.
- d. The Company has undertaken to provide financial support to certain of its subsidiaries namely South China Strategic Limited and its subsidiaries for the period from 1 January to 31 December 2002.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. PENSION SCHEMES

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group companies 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 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, each of the Group and its employees makes 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 a cap of 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 contributions made by the Group were approximately \$8,925,000 (2000 – \$8,383,000) after deduction of forfeited contributions of approximately \$530,000 (2000 – \$864,000). 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)

36. 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:

- a. mortgages over the Group's land and buildings, machinery and equipment and investment properties and properties under development with an aggregate net book value of approximately \$281,014,000 (2000 – \$173,357,000) (see Notes 14, 15 and 16); and
- b. the Group's inventories released under import trust receipts bank loans (see Note 21).

37. 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.

38. SUBSEQUENT EVENTS

On 22 April 2002, SCIT entered into agreements with an independent third party to effect a financial restructuring proposal for SCIT Group. The independent third party will essentially inject \$66 million into SCIT as a result of the above financial restructuring proposal.

39. COMPARATIVE FIGURES

In addition to the prior year adjustment 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.