

1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited. Its ultimate holding company is Eternal Victory Enterprises Inc., a company incorporated in the British Virgin Islands.

During the year, the Group was involved in the following principal activities:

- marketing and distribution of left-hand drive motor vehicles
- property holding for rental income purposes

2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of motor vehicles were adversely affected by certain government regulations regarding the import of motor vehicles into the PRC.

For the year ended 31 December 2001, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$10,857,000. As at 31 December 2001, the Group had consolidated net current liabilities of approximately HK\$36,824,000 and net liabilities of approximately HK\$21,310,000.

Having regard to this situation, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the director adopted the following measures:

- (a) the Directors are in active negotiations with the new bankers to secure new facilities to meet the working capital requirement of the Company;
- (b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares; and
- (c) the Directors have taken action to reduce costs.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2001.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of director.

Interests in subsidiaries are stated at cost unless, in the opinion of the director, there have been permanent diminution in values, when they are written down to values determined by the director.

(d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(d) Fixed assets and depreciation (continued)**

Depreciation is calculated on the straight line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term lease land	Over the remaining term of the lease
Medium term leasehold buildings	Over the unexpired lease term of the land
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long term interest and over which it has the ability to exercise significant influence but not control, including participation in financial and operating policy decisions.

Investments in associates are stated in the consolidated balance sheet at the group's share of net assets other than goodwill less provision and in the balance sheet of the Company at cost less provision. Provision is only made when the Directors consider that there has been a permanent diminution in underlying value of the investment. Any such provision is recognized as an expense in the profit and loss account.

The consolidated profit and loss account reflects, the Group's share of the post acquisition results of the associates.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for its investment potential. Such properties with an unexpired lease term of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

(h) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(i) Inventories**

Inventories, comprising entirely finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other cost incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less any estimated cost necessary to make the sale.

(j) Deferred taxation

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that a liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(k) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(l) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) on the rendering of services, when services are rendered;
- (c) rental income, on the straight-line basis over the lease terms; and
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(m) Related parties**

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. Related parties may be individuals or corporate entities.

(n) Cash equivalents

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.

(o) Goodwill

Goodwill arising on consolidation of subsidiary companies and on acquisition of associated companies represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition and its written off to profit and loss account in the year of acquisition.

On disposal of an investment in a subsidiary or associated company, the attributable amount of goodwill is included in calculating the profit and loss on disposal.

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(q) Segment reporting (continued)**

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

4. TURNOVER

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The amount of each significant category of revenue recognized in turnover during the year is as follows:

	Group Turnover	
	2001 HK\$'000	2000 HK\$'000
Sales of motor vehicles	15,677	26,734
Rental income	741	1,220
	<u>16,418</u>	<u>27,954</u>

5. OTHER REVENUE

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest income	308	659
Foreign exchange gain	90	702
Others	235	402
	<u>633</u>	<u>1,763</u>

6. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting) the following:

	Group	
	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration		
– (over)/under provision in respect of previous year	(5)	1
– current year	268	278
Depreciation	285	414
Loss on disposal of fixed assets	29	–
Provision for impairment in value of land and buildings (Note 13)	232	2,480
Deficit arising from revaluation of investment properties (Note 14)	800	3,700
Provision for bad and doubtful debts	45	380
Staff costs (including Directors' remuneration) (Note 8)	3,968	3,923
Mandatory provident fund contribution	85	10
Goodwill written off (Note 16)	–	21,000
Cost of inventories	15,404	25,338
Interest income	(308)	(659)
Gross and net rental income	(741)	(1,220)
Foreign exchange gains, net	(90)	(702)

7. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank loans, overdrafts and trust receipt loans	2,994	5,384

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive Directors	–	–
Non-executive Director	100	95
Independent non-executive Directors	200	180
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	300	275
Other emoluments - executive Directors:		
Salaries and allowances	1,622	1,516
MPF contribution	24	2
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	1,946	1,793
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The emoluments of the Directors fell within the following bands:

	Group	
	2001 Number of Director	2000 Number of Director
Nil – HK\$1,000,000	4	8
HK\$1,000,001 – HK\$1,500,000	1	–
	<hr/>	<hr/>
	5	8
	<hr/>	<hr/>

There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included two (2000: two) Directors, details of whose remuneration are set out in note 8 to the financial statements. The three (2000: three) non-Director, highest paid employees' received remuneration as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries and allowances	869	881
Mandatory provident fund contribution	28	2
Long service payment	102	–
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	999	883

The remuneration of the above non-Director, highest paid employees fell within the band of Nil to HK\$1,000,000 in both years.

10. TAX**(a) Taxation in the consolidated profit and loss account represents:**

	Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong:		
Provision for the year	(4)	–
Overprovision in prior years	–	446
	<hr/>	<hr/>
	(4)	446

The provision for Hong Kong Profits Tax is calculated at 16 per cent (2000: 16 per cent) of the estimated assessable profits for the year ended 31 December 2001. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

At the balance sheet date, the Group had an unprovided deferred tax asset in respect of accumulated tax losses of approximately HK\$16,000,000 (2000: HK\$16,000,000).

The revaluation of the Group's land and buildings and investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

10. TAX (Continued)**(b) Taxation in the balance sheet represents:**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Balance of profits				
tax provision				
in respect of prior years	3,739	6,017	–	–

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$5,352,000 (2000: HK\$22,553,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$10,857,000 (2000: HK\$38,315,000) and the weighted average of 145,891,000 (2000: weighted average of 122,900,500 after adjusting for the share consolidation on 26 July 2001) ordinary shares in issue during the year. The rights issue on 30 January 2002 had no effect to the calculation of basic loss per share.

No diluted loss per share for the years ended 31 December 2001 and 2000 had been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

13. FIXED ASSETS

Group

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or deemed cost:						
At beginning of year	10,250	69	567	1,163	4,654	16,703
Additions during the year	-	-	-	2	-	2
Disposals during the year	-	-	-	(61)	-	(61)
Provision for impairment – note 6	(450)	-	-	-	-	(450)
At 31 December 2001	9,800	69	567	1,104	4,654	16,194
Accumulated depreciation:						
At beginning of year	-	69	557	1,057	4,654	6,337
Provided during the year	218	-	10	57	-	285
Written back on disposals	-	-	-	(32)	-	(32)
Write back related to provision for impairment – note 6	(218)	-	-	-	-	(218)
At 31 December 2001	-	69	567	1,082	4,654	6,372
Net book value:						
At 31 December 2001	9,800	-	-	22	-	9,822
At 31 December 2000	10,250	-	10	106	-	10,366

The Group's medium term leasehold land and buildings carried at a net book value of HK\$9,800,000 (2000: HK\$10,250,000) have been pledged to secure banking facilities as set out in note 22 to the financial statements.

The Group's land and buildings as at 31 December 2001 were written down to HK\$9,800,000, being the open market value of the property based on a valuation report prepared by Vigers Hong Kong Limited, an independent professional valuer.

14. INVESTMENT PROPERTIES

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	14,800	18,500
Revaluation deficit, net – note 6	(800)	(3,700)
Balance at 31 December	14,000	14,800

At 31 December 2001, the Group's investment properties were revalued by Vigers Hong Kong Limited, an independent professional valuer, at HK\$14,000,000 on an open market, existing use basis.

The Group's investment properties have been pledged to secure banking facilities as set out in note 22 to the financial statements.

Details of the investment properties which are situated in Hong Kong are as follows:

Location	Lease term		Saleable Use floor area (sq. ft.)	Group's interest
Flat A on 13th Floor Champion Building, Nos. 301–309 Nathan Road, Yau Ma Tei, Kowloon	Long lease	Commercial	1,350	100%
Room 1607, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon	Medium lease	Commercial	2,235	100%

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	76,309	76,309
Due from subsidiaries	52,134	48,604
Provision for diminution in value	128,443 (128,443)	124,913 (124,913)
	–	–

15. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/registered share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited	British Virgin Islands	Ordinary HK\$100,000	100%	–	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$3,000,000	–	100%	Trading of motor vehicles
Victory Realty Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Property holding
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK\$1,000,000	–	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary HK\$2	–	100%	Property holding
華多利(天津)國際貿易有限公司 (Victory (Tianjian) International Trading Limited)*	People's Republic of China	US\$1,000,000	–	100%	Trading of motor vehicles
Victory H-Tech Company Limited	Hong Kong	Ordinary HK\$100,000	–	100%	Investment holding

* not audited by Fan, Mitchell & Co.

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

16. INTERESTS IN ASSOCIATE

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	21,000	21,000
Goodwill written off to profit and loss account	(21,000)	(21,000)
Carrying amount	–	–

The Group's share of loss of the associate exceeds the carrying amount of the investment which is reported at nil value and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of Statement of Standard Accounting Practice 10. The Group has no commitment to provide financial support to the associate. Up to the balance sheet date, the group's share of net liabilities of HK\$141,000 and share of post acquisition loss of HK\$67,000 of the associate are not included in the consolidated financial statements. Subsequent to the balance sheet date, eSolutions Holdings Limited is being wound up.

Details of the Group's interest in the associate are as follows:

Name of the associate	Place of incorporation & operation	Particulars of issued & paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by subsidiary	
eSolutions Holdings Limited	Hong Kong	100 ordinary shares of HK\$1 each	48%	–	48%	Dormant

17. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Finished goods	2,941	6,636

The carrying amount of inventories that are carried at net realisable value was HK\$140,000 (2000: HK\$1,686,000).

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables, prepayments, deposits and other receivables	429	921	266	242

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current	–	497	–	–
More than 1 year	27	27	–	–
	27	524	–	–
Prepayments, deposits and other receivables	402	397	266	242
	429	921	266	242

Normally, debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables, other payables and accruals	5,941	6,436	709	443

All of the trade payables, other payables and accruals are expected to be settled within one year.

Included in trade payables, other payables and accruals are trade payables with the following aging analysis:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
More than 1 year	203	203	–	–
	203	203	–	–
Other payables and accruals	5,738	6,233	709	443
	5,941	6,436	709	443

20. DUE TO DIRECTORS

The amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

21. DUE TO A RELATED PARTY

The amount due to a related party is unsecured, interest free and has no fixed terms of repayment.

22. INTEREST-BEARING BANK BORROWINGS AND TRUST RECEIPT LOANS, SECURED

	Group	
	2001 HK\$'000	2000 HK\$'000
Trust receipt loans, secured	–	7,320
Bank overdrafts, secured	20,120	20,079
Bank loans, secured	8,827	19,344
	28,947	46,743
Bank overdrafts repayable		
within one year, or on demand	20,120	20,079
Bank loans repayable:		
Within one year	519	19,344
In the second year	503	–
In the second to fifth years inclusive	1,655	–
Beyond five years	6,150	–
	8,827	19,344
Trust receipt loans repayable within one year	–	7,320
	28,947	46,743
Portion classified as current liabilities	(20,639)	(46,743)
Long term portion	8,308	–

The Group's banking facilities as at 31 December 2001 were secured by the following:

- (i) time deposits of HK\$5,735,000 (2000: HK\$10,517,000) which is less than the specified amount of HK\$10,000,000; and
- (ii) leasehold land and buildings and investment properties of the Group.

23. SHARE CAPITAL

	No. of shares		Company	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Authorised:				
At the beginning of the year				
Ordinary shares of HK\$0.02 (2000: HK\$0.10) each	2,500,000,000	500,000,000	50,000	50,000
Share Consolidation	(2,250,000,000)	–	–	–
Capital reduction	–	–	(27,944)	–
Share subdivision	1,955,586,400	2,000,000,000	–	–
At the end of the year				
Ordinary shares of HK\$0.01 (2000: HK\$0.02) each	2,205,586,400	2,500,000,000	22,056	50,000
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.02 (2000: HK\$0.10) each	1,230,744,000	230,000,000	24,615	23,000
Placing	240,000,000	–	4,800	–
Share consolidation	(1,323,669,600)	–	–	–
Capital reduction	–	–	(27,944)	–
Share subdivision	–	920,000,000	–	–
New issue	–	75,000,000	–	1,500
Exercise of subscription rights of warrants	–	5,744,000	–	115
At the end of the year				
Ordinary shares of HK\$0.01 (2000: HK\$0.02) each	147,074,400	1,230,744,000	1,471	24,615

23. SHARE CAPITAL (Continued)

Details of the changes in the Company's share capital which occurred between 1 January 2001 and 31 December 2001 are as follows:

Placing

Pursuant to a resolution passed in the Board Meeting of the Company on 8 January 2001, and by means of placing. The Company issued a total of 240,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.023 on 23 January 2001 to ten independent investors. The aggregate nominal value of the issued shares is HK\$4,800,000, the share premium arising on the issue of shares is HK\$720,000 and the share issue expenses amounted to HK\$439,000. The net proceeds of HK\$5,081,000 were used for reducing the bank loans.

Capital reorganization and Share Consolidation

On 26 July 2001, the Company's issued and unissued shares of HK\$0.02 each in the capital of the Company ("Shares") were consolidated on the basis of every 10 issued and unissued shares being consolidated into 1 share of HK\$0.20 each ("Consolidated Shares").

On the same day, the issued share capital of the Company was reduced from HK\$29,414,880 to HK\$1,470,744 by the cancellation of HK\$0.19 paid up capital on each issued Consolidated Share. In addition, every authorized and unissued Consolidated Share was subdivided into 20 shares of HK\$0.01 each.

Warrants

On 17 March 2000, a bonus issue of warrants was made on the basis of one warrant for every five shares held by shareholders on the register of members on 15 March 2000. 245,000,000 warrants were issued pursuant to this bonus issue. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.02 at a subscription price of HK\$0.30 per share, payable in cash and subject to adjustment in certain events, at any time from the date of issue to 16 March 2000, both dates inclusive. Full exercise of these warrants will result in the issue of 245,000,000 new shares of HK\$0.02 each and gross receipts by the Company of HK\$73,500,000. No warrants were exercised this year. The remaining 239,256,000 warrants expired on 16 March 2001 unexercised.

Share options

On 22 January 1998, under the terms of the Company's share option scheme approved by the shareholders, the Board of Directors was empowered, at its discretion, to invite any full-time employee of the Company or any of its subsidiaries, including any executive Directors of the Company or of any subsidiaries, to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10 per cent of the issued share capital of the Company from time-to-time, excluding for this purpose, shares issued upon the exercise of any options granted under the share option scheme. No share options were granted during the current or prior years.

23. SHARE CAPITAL (Continued)**Rights issue**

Subsequent to the balance sheet date, pursuant to resolutions passed in the Board Meetings of the Company on 18 December 2001 and 28 January 2002, the Company issued 73,537,200 new ordinary shares of HK\$0.01 each on the basis of one rights share for every two existing ordinary shares held by members of the Company on 30 January 2002 by way of a rights issue at a price of HK\$0.10 per rights share.

24. RESERVES**Group**

	Share premium account HK\$'000	Contributed surplus HK\$'000	Enterprise expansion fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000	8,258	710	429	(56)	(32,322)	(22,981)
Arising on issue of shares	21,108	-	-	-	-	21,108
Share issue expenses	(17)	-	-	-	-	(17)
Exchange realignments	-	-	-	29	-	29
Loss for the year	-	-	-	-	(38,315)	(38,315)
At 31 December 2000 and at 1 January 2001	29,349	710	429	(27)	(70,637)	(40,176)
Arising on issue of shares	720	-	-	-	-	720
Share issue expenses	(439)	-	-	-	-	(439)
Capital reduction	-	-	-	-	27,944	27,944
Exchange realignments	-	-	-	27	-	27
Loss for the year	-	-	-	-	(10,857)	(10,857)
At 31 December 2001	29,630	710	429	-	(53,550)	(22,781)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

* The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

24. RESERVES (Continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	8,258	64,809	(96,385)	(23,318)
Arising on issue of shares for acquisition of an associated company	19,500	–	–	19,500
Arising on issue of shares	1,608	–	–	1,608
Share issue expenses	(17)	–	–	(17)
Loss for the year	–	–	(22,553)	(22,553)
At 31 December 2000 and 1 January 2001	29,349	64,809	(118,938)	(24,780)
Arising on issue of shares	720	–	–	720
Share issue expenses	(439)	–	–	(439)
Capital reduction	–	–	27,944	27,944
Loss for the year	–	–	(5,352)	(5,352)
At 31 December 2001	29,630	64,809	(96,346)	(1,907)

The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a) Reconciliation of loss before taxation to net cash inflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(10,853)	(38,761)
Interest expenses	2,994	5,384
Interest income	(308)	(659)
Depreciation	285	414
Goodwill written off	–	21,000
Provision for impairment in value of land and buildings	232	2,480
Deficit arising from revaluation of investment properties	800	3,700
Loss on disposals of fixed assets	29	–
Decrease in inventories	3,695	7,815
(Increase)/decrease in prepayments, deposits and other receivables	(5)	6,477
Decrease in trade and bills receivables	497	13,173
Decrease in trade payables, other payables and accruals	(495)	(6,439)
Decrease in deposits received	(564)	(42)
Exchange realignments	27	29
Net cash (outflow)/inflow from operating activities	(3,666)	14,571

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b) Analysis of changes in financing:

	Share capital (including share premium) HK\$'000	Trust receipt loans, bank loans and overdrafts HK\$'000	Advance from a related party HK\$'000	(Repayment to)/ Advances from Director HK\$'000
Balance at 1 January, 2001	31,258	58,599	–	3,000
Net cash inflow/(outflow)				
from financing	1,706	(11,132)	–	(487)
Arising on acquisition of an associated company	21,000	–	–	–
Decrease in short term trust receipt loans, bank loans and overdraft classified as cash equivalents	–	(724)	–	–
Balance at 31 December 2000 and at 1 January 2001	53,964	46,743	–	2,513
Net cash inflow/(outflow)				
from financing	5,081	(17,796)	14,649	(347)
Capital reduction	(27,944)	–	–	–
Balance at 31 December 2001	31,101	28,947	14,649	2,166

(c) Included in other operating expenses, disclosed in note 6 to the financial statements in accordance with SSAP 2, are provision for impairment in value of land and buildings of HK\$232,000 (2000: HK\$2,480,000), a revaluation deficit on investment properties of HK\$800,000 (2000: HK\$3,700,000) and a provision for bad and doubtful debts of HK\$45,000 (2000: HK\$380,000), respectively, which had no cash flow impact on the Group.

The realised portion of net foreign exchange gains of HK\$498,000 (2000: HK\$899,000) has been included in net cash outflow from operating activities. The unrealised portion of foreign exchange losses of HK\$408,000 (2000: HK\$197,000) had no cash flow impact on the Group.

26. CONTINGENT LIABILITIES

- (i) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Banking facilities guaranteed by the Company which were utilized by:				
– subsidiaries	–	–	28,947	46,743
– a related company	–	23,570	–	23,570
	–	23,570	28,947	70,313

- (ii) In 1999, the Group failed to honour a number of purchase contracts signed with two vendors for the purchase of motor vehicles due to an unanticipated contraction in demand. The aggregated contracted amount was approximately HK\$125 million.

The vendors took legal action to enforce the contracts and to seek compensation, the Group agreed to pay compensation totaling HK\$4,971,000. An amount of HK\$2,321,000 was paid in the year ended 31 December 1999 and a provision for the remaining balance of HK\$2,650,000 had been included in as trade payables, other payables and accruals as at 31 December 2001. However, one of the vendors is seeking further additional compensation of approximately HK\$7.6 million.

Following consultation with the Group's legal advisor, the Directors are of the opinion that the Group has a valid defence against this additional claim and, accordingly, consider no further provision to be necessary. In addition, the Group had made a counter-claim against the vendor for not delivering motor vehicles to satisfy the purchase orders placed by the Group. The action was settled in full in September 2001 as disclosed in the section of "Contingent Liabilities" in the Report of the Directors.

27. LEASING ARRANGEMENT

The Group leases investment properties under operating leases. The terms of the existing lease is two years and with fixed monthly rentals.

During the year, HK\$741,000 (2000: HK\$1,220,000) are recognized as rental income in the profit and loss account in respect of operating leases.

The total future minimum lease payments under non-cancelable operating leases are receivable as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	330	741
After 1 year but within 5 years	–	330
	<u>330</u>	<u>1,071</u>

28. SEGMENT REPORTING

The segment information set out below is based on the requirements of SSAP26 "Segment reporting" which has been adopted for the first time. Segment disclosures for 2000 have been amended so that they are presented on a consistent basis.

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group in making operating and financial decisions.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located.

(a) Business segments

The group is comprised of the following main business segments:

Trading of motor vehicles – Purchase and sales of motor vehicles

Property investment – leasing of office premises

28. SEGMENT REPORTING (Continued)**(a) Business segments (Continued)**

	2001				Group HK\$'000
	Trading of Motor Vehicles HK\$'000	Property Investment HK\$'000	Unallocated HK\$'000	Inter-segment Elimination HK\$'000	
Segment revenue:					
Revenue from external customers	15,677	741	-	-	16,418
Inter-segment revenue	-	720	-	(720)	-
Other revenue from external customers	158	77	-	-	235
Total	15,835	1,538	-	(720)	16,653
Segment result	(5,963)	(343)	(1,861)	-	(8,167)
Inter-segment transactions	720	(720)	-	-	-
Contribution from operations	(5,243)	(1,063)	(1,861)	-	(8,167)
Interest income					308
Interest expenses					(2,994)
Loss before taxation					(10,853)
Taxation					(4)
Loss attributable to shareholders					(10,857)
Segment assets	15,324	23,881	82,789	(94,801)	27,193
Cash and cash equivalents					(12,915)
Total assets					14,278
Segment liabilities	52,344	43,343	22,135	(94,801)	23,021
Bank loans and other liabilities					8,827
Tax liabilities					3,740
Total liabilities					35,588
Other information					
Depreciation and amortization for the year	(67)	(218)	-	-	(285)
Impairment loss for the year	-	(1,032)	-	-	(1,032)
Goodwill written off	-	-	-	-	-
Capital expenditure	2	-	-	-	2

28. SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

	2000				Group HK\$'000
	Trading of Motor Vehicles	Property Investment	Unallocated	Inter-segment Elimination	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:					
Revenue from external customers	26,734	1,220	-	-	27,954
Inter-segment revenue	-	720	-	(720)	-
Other revenue from external customers	244	2	155	-	401
Total revenue	26,978	1,942	155	(720)	28,355
Segment result	(5,217)	(5,156)	(23,663)	-	(34,036)
Inter-segment transactions	720	(720)	-	-	-
Contribution from operations	(4,497)	(5,876)	(23,663)	-	(34,036)
Interest income					659
Interest expenses					(5,384)
Loss before taxation					(38,761)
Taxation					446
Loss attributable to shareholders					(38,315)
Segment assets	33,286	25,128	71,806	(97,496)	32,724
Cash and cash equivalents					(5,825)
Total assets					26,899
Segment liabilities	47,318	44,554	22,723	(97,496)	17,099
Bank loans and other liabilities					19,344
Tax liabilities					6,017
Total liabilities					42,460
Other information					
Depreciation and amortization					
for the year	(132)	(271)	(212)	-	(615)
Impairment loss for the year	-	(6,180)	-	-	(6,180)
Goodwill written off	-	-	(21,000)	-	(21,000)
Capital expenditure	-	-	-	-	-

28. SEGMENT REPORTING (Continued)**(b) Geographical segments**

The Group's operations are located in Hong Kong, the PRC. The Group's trading of motor vehicles is carried out in Hong Kong and PRC. Property investment is located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		PRC	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	15,492	24,468	926	3,486
Segment assets	13,151	24,287	1,127	2,612
Capital expenditure	2	–	–	–
Operating loss	(10,209)	(37,973)	(644)	(788)

29. RELATED PARTY TRANSACTIONS

During the year, the Group provided counter-indemnity in favour of a bank for an outstanding mortgage loan with a maximum amount of approximately HK\$23,570,000 borrowed by Winsley Investment Limited ("Winsley"), a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors of the Company. Winsley is involved in property investment and the mortgage loan was repaid by Winsley on 2 April 2001. From May 2001, Winsley is no longer jointly and severally liable for banking facilities granted to the Group by a bank.

During the year, the Group borrowed HK\$14,649,000 from Winsley. The amount is unsecured, interest free and has no fixed terms of repayment.

30. RETIREMENT SCHEME

With the implementation of MPF Schemes Ordinance on 1 December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent of the employees' monthly relevant income capped at HK\$20,000.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 19 April 2002.

32. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2001 to be Eternal Victory Enterprises Inc., which is incorporated in the British Virgin Islands.