NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in controlled subsidiaries are consolidated into the consolidated accounts, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Group, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(x)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(e) Associates

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

Investments in associates are accounted for in the consolidated accounts under equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of its associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(v).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(x)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealers' margin.

(ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(f) Other investments in securities *(Cont'd)*

(iii) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments in securities are determined as the differences between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(g) Property, plant and equipment

(i) Land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(h) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified external valuers. Surpluses arising on revaluations are credited on a portfolio basis to the income statement to the extent of any deficit arising on revaluation previously charged to the income statement and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the income statement.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the income statement for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(i) Amortisation and depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

Land in Hong Kong held under long term lease	— Over the remaining lease term
Buildings in Hong Kong	— 50 years
Land use rights and buildings outside Hong Kong in the PRC held under short to medium term lease	— Over the period of the lease
Furniture, fixtures and fittings	— 3 to 20 years
Plant, machinery and equipment	— 2 to 10 years
Motor vehicles	— 3 to 10 years
Investment properties	
— unexpired lease term of more than 20 years	— Nil
— unexpired lease term of 20 years or less	— Over the remaining lease term

(j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) *Contract revenue*

When the outcome of contract work can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of contract work cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(j) Revenue recognition *(Cont'd)*

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the respective leases.

(iv) *Dividends*

— dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(k) Inventories

(i) *Trading and manufacturing*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(k) Inventories *(Cont'd)*

(ii) *Property development*

Properties held for sale are stated at the lower of cost and estimated net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(l) Intangible assets

Intangible assets represent patent rights for software development acquired by the Group and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 10 years.

(m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of subsidiaries outside Hong Kong in the PRC are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(o) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(o) Leased assets *(Cont'd)*

Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(p) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research costs are recognised as an expense in the period in which they are incurred. Development costs are recognised as an expense in the period in which they are incurred except those development costs which relate to a clearly defined project and the future benefits therefrom are reasonably assured.

(q) Retirement costs

The amount of the contribution payable to the Group's retirement scheme is charged to the income statement when incurred.

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised 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.

(s) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(t) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(u) Forward exchange contracts

Exchange differences arising on non-speculative contracts which are used as hedges of firm commitments are added to, or deducted from, the amount of the relevant transaction. These outstanding contracts are revalued at the exchange rates ruling at the balance sheet date.

(v) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1st January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1 (x)); and

— for acquisitions on or after 1st January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(x)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(x)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1st January 2001, negative goodwill is credited to a capital reserve; and

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(v) Goodwill *(Cont'd)*

— for acquisitions on or after 1st January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(x) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(d)&(e));

— intangible assets; and

— positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(y) Segment reporting

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

No analysis of the Group's turnover and contribution from operations by geographical segment or business segment has been presented as almost all the Group's operating activities are carried out in the People's Republic of China (the "PRC") and less than 10 per cent of the Group's turnover and contribution from operations were derived from activities other than manufacturing, distribution and sale of electronic and electrical products and office equipment. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and associates are the manufacturing, distribution and sale of electronic and electrical products, office equipment and the provision of technology-enabled value-added services. Further details of the subsidiaries are set out in note 37 on the accounts.

Turnover represents the invoiced value of goods sold and services provided to customers by the Group less returns, discounts, business tax and value added tax, and fee income from technology-enabled value-added services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2001	2000
	$'000	*$'000*
Manufacturing, distribution and sale of electronic and electrical products and office equipment	**921,709**	1,122,547
Fee income from technology-enabled value-added services	**19,705**	13,960
	941,414	1,136,507

The Group's turnover and contribution from operations are almost entirely attributable to manufacturing, distribution and sale of electronic and electrical products and office equipment in the PRC. Activities conducted outside the PRC are insignificant. Accordingly, no analyses by business segment and geographical segment are provided.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

3. OTHER REVENUE

	2001	2000
	$'000	*$'000*
Interest income	**10,467**	15,808
Rental received from investment properties less outgoings	**4,820**	4,893
Exchange gain	**659**	2,975
Compensation for termination of distribution right of Matsushita products	**22,626**	—
Income from provision of training services	**3,951**	—
Dividend income from listed investments	**—**	4
Dividend income from unlisted investments	**—**	62
Others	**1,163**	6
	43,686	23,748

4. NON-OPERATING EXPENSES

	2001	2000
	$'000	*$'000*
Revaluation deficit/(surplus) on investment properties	**1,855**	(2,555)
Impairment loss on properties	**8,237**	26,968
Impairment loss on goodwill and other intangible assets	**26,542**	—
Impairment loss on non-trading equity securities	**—**	5,676
Net realised/unrealised losses on equity securities	**38,602**	196,558
Net loss on disposal of interest in associates	**15,197**	—
	90,433	226,647

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):—

(a) Finance cost

	2001	2000
	$'000	*$'000*
Interest on bank advances and other borrowings repayable within five years	**4,089**	7,555
Interest on other loans	**—**	747
Other borrowing costs	**426**	406
Total borrowing costs	**4,515**	8,708

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION *(Cont'd)*

(b) Other items

	2001	2000
	$'000	*$'000*
Cost of inventories	**845,639**	1,001,427
Staff costs (including retirement costs of $5,181,000) (2000: $6,094,000)	**53,271**	49,681
Amortisation of goodwill	**2,511**	—
Amortisation of other intangible assets	**1,017**	254
Research and development costs	**4,653**	266
Provision for write down in value of obsolete inventories	**11,221**	21,722
Provision for bad and doubtful debts	**10,670**	28,464
(Gain)/ loss on disposal of property, plant and equipment	**(1,120)**	2,544
Depreciation	**10,783**	12,130
Management fees	**2,592**	2,589
Auditors' remuneration	**2,000**	2,000
Operating lease charges for land and buildings	**9,107**	9,667

6. DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
	$'000	*$'000*
Fees	**—**	—
Salaries and other emoluments	**6,342**	8,624
Retirement scheme contributions	**44**	51
	6,386	8,675

In addition, directors are eligible under the Company's share option scheme to subscribe for shares in the Company at discounted prices. During the year, 14,151,000 options have been granted to the directors. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

6. DIRECTORS' REMUNERATION *(Cont'd)*

The directors' remuneration is within the following bands:

	2001 Number of directors	2000 Number of directors
\$ 0 — \$ 1,000,000	**8**	2
\$ 1,000,001 — \$ 1,500,000	**1**	2
\$ 1,500,001 — \$ 2,000,000	**—**	2
\$ 2,000,001 — \$ 2,500,000	**—**	1
\$ 2,500,001 — \$ 3,000,000	**1**	—

The above number of directors include the Company's independent non-executive directors, who did not receive any fees or emoluments in 2001 and 2000. The above number of directors also include the directors who were appointed or resigned during the respective years.

During the year ended 31st December, 2001, four directors agreed to waive part of their emoluments totalling \$10,849,000 (2000: \$8,273,000) to which they are entitled under the service contracts entered into with the Company.

7. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments comprise four (2000: five) directors whose emoluments are disclosed in note 6 and one (2000: Nil) employee. Details of the emoluments in respect of this employee are as follows:

	2001 ***\$'000***	2000 *\$'000*
Salary, housing and other emoluments	**857**	—

The emolument of the above employee is within the following band:

	2001 Number of employees	2000 Number of employees
\$0 — \$1,000,000	**1**	—

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

8. TAXATION

(a) Taxation in the consolidated income statement represents:

	2001	2000
	$'000	*$'000*
Hong Kong profits tax		
— current year	**14**	8
— prior year	**(32)**	—
Income tax outside Hong Kong in the PRC ("PRC income tax")	**3,050**	4,868
Share of associates' PRC income tax	**103**	115
Deferred taxation *(Note 26(a))*	**—**	(24,729)
	3,135	(19,738)

The provision for Hong Kong profits tax is calculated at the rate of 16% (2000: 16%) on the estimated assessable profits for the year. PRC income tax is calculated at the applicable rates on the estimated taxable income outside Hong Kong in the PRC.

(b) Taxation in the balance sheets represents:

	Group		**Company**	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Provision for Hong Kong profits tax				
— current year	**14**	8	**—**	—
— balance of profits tax recoverable relating to prior years	**—**	(1,728)	**—**	—
— provisional profits tax paid	**(8)**	(3)	**—**	—
Provision for PRC income tax	**17,992**	3,632	**31**	—
Transfer from deferred taxation *(Note 26(a))*	**—**	15,127	**—**	—
	17,998	17,036	**31**	—

9. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year attributable to shareholders includes an amount of $177,589,000 (2000: $116,296,000) which has been dealt with in the accounts of the Company.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to shareholders of $123,229,000 (2000: $216,265,000) and on the weighted average of 1,140,600,000 shares (2000: 1,044,642,000 shares) in issue during the year.

(b) Diluted loss per share

Diluted loss per share is not presented because there were no dilutive potential ordinary shares in existence during the year or the prior year.

11. RETIREMENT SCHEMES

The Company has a defined contribution retirement scheme (the "Scheme") which was registered in May 1995 under the Occupational Retirement Schemes Ordinance for all qualified employees in Hong Kong. In December, 2000, the Company also established a mandatory provident fund scheme (the "MPF Scheme"). During the year, all members of the Scheme have elected to join the MPF Scheme, the Scheme was subsequently terminated.

Pursuant to the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines, the Company's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff. The Company's contributions payable to the MPF Scheme are charged to the income statement. Retirement costs for the MPF Scheme for the year were $141,000 (2000: $283,000 for the two schemes).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme. Retirement costs for the Central Pension Scheme for the year were $5,040,000 (2000: $5,811,000).

12. INVESTMENT PROPERTIES

	Group	
	2001	2000
	$'000	*$'000*
Valuation		
At 1st January	**82,396**	89,907
Exchange adjustments	**84**	37
(Deficit)/surplus on revaluation	**(1,855)**	2,555
Transfer from/(to) fixed assets *(Note 13(a))*	**3,740**	(10,103)
Disposal for the year	**(16,300)**	—
At 31st December	**68,065**	82,396
Accumulated depreciation		
At 1st January	**3,073**	1,981
Exchange adjustments	**3**	5
Charge for the year	**—**	1,087
Written back on disposal	**(3,076)**	—
At 31st December	**—**	3,073
Net book value		
At 31st December	**68,065**	79,323

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

12. INVESTMENT PROPERTIES *(Cont'd)*

(a) The analysis of valuation of investment properties is as follows:—

	Group	
	2001	2000
	$'000	*$'000*
Held in Hong Kong under long term lease	**2,420**	2,910
Held outside Hong Kong in the PRC under medium term lease	**65,645**	79,486
	68,065	82,396

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31st December, 2001 by Jointgoal Surveyors and DTZ Debenham Tie Leung Limited respectively who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation deficit of $1,855,000 (2000: surplus of $2,555,000) has been transferred to the consolidated income statement.

(c) Certain investment properties held in Hong Kong and outside Hong Kong in the PRC with a carrying value of $4,820,000 were pledged as security for bank loans of $2,978,000 (2000: $Nil) *(Note 24)*.

(d) The gross carrying amounts of investment properties of the Group held for use in operating leases were $68,065,000 (2000: $79,323,000).

(e) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2001	2000
	$'000	*$'000*
Within 1 year	**4,261**	6,621
After 1 year but within 5 years	**719**	1,633
	4,980	8,254

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

13. PROPERTY, PLANT AND EQUIPMENT

(a) **Group**

	Land and buildings held for own use	**Furniture, fixtures and fittings**	**Plant, machinery and equipment**	**Motor vehicles**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:					
At 1st January, 2001	111,761	3,179	32,350	27,110	174,400
Exchange adjustments	61	—	30	24	115
Additions through acquisition of a subsidiary	—	12	446	1,171	1,629
Other additions	26	195	1,643	3,505	5,369
Transfer to investment properties *(Note 12)*	(3,740)	—	—	—	(3,740)
Other disposals	(9,196)	(62)	(2,889)	(3,058)	(15,205)
At 31st December, 2001	98,912	3,324	31,580	28,752	162,568
Representing:					
Cost	98,219	3,324	31,580	28,752	161,875
Valuation in 1992	693	—	—	—	693
	98,912	3,324	31,580	28,752	162,568
Accumulated amortisation and depreciation:					
At 1st January, 2001	55,984	2,153	23,831	17,218	99,186
Exchange adjustments	30	1	22	15	68
Charge for the year	4,004	460	3,446	2,873	10,783
Impairment loss	8,237	—	—	—	8,237
Additions through acquisition of a subsidiary	—	—	100	82	182
Written back on disposal	(6,731)	(55)	(2,322)	(2,626)	(11,734)
At 31st December, 2001	61,524	2,559	25,077	17,562	106,722
Net book value:					
At 31st December, 2001	**37,388**	**765**	**6,503**	**11,190**	**55,846**
At 31st December, 2000	55,777	1,026	8,519	9,892	75,214

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

(b) **Company**

	Furniture, fixtures and fittings	**Motor vehicles**	**Total**
	$'000	*$'000*	*$'000*
Cost or valuation:			
At 1st January, 2001	1,351	1,869	3,220
Additions	176	541	717
At 31st December, 2001	1,527	2,410	3,937
Accumulated amortisation and depreciation:			
At 1st January, 2001	1,131	1,869	3,000
Charge for the year	104	—	104
At 31st December, 2001	1,235	1,869	3,104
Net book value:			
At 31st December, 2001	**292**	**541**	**833**
At 31st December, 2000	220	—	220

(c) The analysis of cost or valuation of land and buildings is as follows:—

	Group	
	2001	2000
	$'000	*$'000*
Held in Hong Kong under long term leases	**47,084**	47,084
Held outside Hong Kong in the PRC under medium term leases	**44,677**	57,532
Held outside Hong Kong in the PRC under short term leases	**7,151**	7,145
	98,912	111,761

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

(d) Land and buildings held by a subsidiary in the PRC with carrying value of $2,503,000 was pledged as security for a bank loan of $283,000 (2000: $Nil) *(Note 24)*.

(e) Due to the continued decline in the property market, the Group assessed the recoverable amount of the land and buildings held for own use as at 31st December, 2001. Based on this assessment, the carrying amount of the land and buildings was written down by $8,237,000 (included in "Non-operating expenses") (2000: $26,968,000). The estimates of recoverable amount were based on the buildings' net selling price, determined by an independent firm of surveyors, Vigers Hong Kong Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors.

14. GOODWILL

Group	**Positive goodwill** *$'000*	**Positive goodwill carried in reserves** *$'000*
Cost:		
At 1st January 2001	—	73,492
Addition arising on acquisition of a subsidiary	7,922	—
Released on disposal of an associate	—	(54,891)
At 31st December 2001	7,922	18,601
Accumulated amortisation:		
At 1st January 2001	—	—
Amortisation for the year	200	—
Impairment loss	—	18,601
At 31st December 2001	200	18,601
Carrying amount:		
At 31st December 2001	**7,722**	**—**
At 31st December 2000	—	73,492

Positive goodwill is recognised as expense on a straight-line basis over 10 years. The amortisation of positive goodwill for the year is included in "Other operating expenses" in the consolidated income statement.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

15. OTHER INTANGIBLE ASSETS

Group	**Computer software**
	$'000
Cost:	
At 1st January, 2001	10,169
Exchange adjustment	9
At 31st December, 2001	10,178
Accumulated amortisation/Impairment loss:	
At 1st January, 2001	1,949
Exchange adjustment	2
Charge for the year	1,017
Impairment loss	7,210
At 31st December, 2001	10,178
Net book value:	
At 31st December 2001	**—**
At 31st December, 2000	8,220

The amortisation charge for the year is included in "Other operating expenses" in the consolidated income statement.

16. INTEREST IN SUBSIDIARIES

	Company	
	2001	2000
	$'000	*$'000*
Unlisted investments, at cost	**282,839**	125,987
Amounts due from subsidiaries	**601,958**	578,571
Amounts due to subsidiaries	**(19,134)**	(4,936)
	865,663	699,622
Impairment loss	**(128,819)**	(17,635)
	736,844	681,987

Details of the principal subsidiaries are set out in note 37 on the accounts.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

17. INTEREST IN ASSOCIATES

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Unlisted investments, at cost	**—**	—	**88,531**	137,065
Share of net assets				
— Listed	**187,059**	—	**—**	—
— Unlisted	**94,516**	128,739	**—**	—
Goodwill	**(20,270)**	—	**—**	—
	261,305	128,739	**88,531**	137,065
Market value of a listed associate	**116,759**	—	**—**	—

(a) In April 2001, the Company entered into an agreement with Matsushita Electric Works, Ltd. ("Matsushita") to dispose of its entire interest of 35% in Beijing Stone Matsushita Electric Works, Ltd. ("Stone Matsushita") to Matsushita for a consideration of US$17,350,000 (equivalent to $135,330,000).

(b) In April 2001, the Company acquired 25% equity interest in Mitsubishi Stone Semiconductor Company Limited ("MSSC") from Stone Group Corporation at a consideration of $86,405,000. 76,464,267 new shares of $0.10 each in the Company at an issue price of $1.13 per share were issued to Stone Group Corporation for the satisfaction of the consideration.

(c) In November 2001, a subsidiary of the Company, Sun Stone New Media Limited ("SSNM"), was incorporated to hold the shares in Sina.com, a Cayman Islands company listed on NASDAQ, contributed by its shareholders (Shares in Sina.com of market value totalling $124 million were contributed by the Company and a third party investor in a ratio proportionate to their respective holdings in SSNM of 51% and 49%). At 31st December 2001, SSNM, through its wholly-owned subsidiary, holds approximately 20.6% ordinary shares of Sina.com.

(d) In December, 2001, a subsidiary of the Company, Stone Online Sci & Tech Co., Ltd. (Beijing) was established to hold the equity investment in Hong Dun Online Sci & Tech Co., Ltd. (Shaanxi) ("Hong Dun Online"). The cost of investment in Hong Dun Online is RMB15,750,000 (equivalent to $14,844,000).

(e) Details of the principal associates are set out in note 38 on the accounts.

18. OTHER FINANCIAL ASSETS

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Non-trading securities — equity securities				
Listed in Hong Kong	**46,870**	—	**46,870**	—
Unlisted	**64,884**	1,584	**1,952**	2
	111,754	1,584	**48,822**	2
Market value of listed securities	**46,870**	—	**46,870**	—

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

18. OTHER FINANCIAL ASSETS *(Cont'd)*

Included in unlisted equity securities is a 25% equity interest in China Cable Information Network Company Limited ("China Cable") with a carrying value of $58,388,000 at 31st December 2001. This investment was acquired during the year and held in trust on behalf of the Group by Stone Group Corporation, which owns 49% equity interest in the Company's immediate holding company.

The investment in China Cable has not been equity accounted for as an investment in an associate as the directors consider that the Group does not have sufficient board representation to exert significant influence over China Cable. In addition, pursuant to a series of organisation restructuring being undertaken by China Cable, which were planned at the time the Group's investment was made, the equity interest held by the Group is expected to be diluted to a level of less than 20% in the future.

19. CURRENT INVESTMENTS

	Group		**Company**	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Equity securities				
— Listed outside Hong Kong, at market value	**—**	78,301	**—**	44,369

20. INVENTORIES

	Group	
	2001	2000
	$'000	*$'000*
Trading and manufacturing		
Raw materials	**46,101**	58,984
Work in progress	**14,455**	9,932
Finished goods	**94,954**	181,199
	155,510	250,115
Property development		
Properties held for sale	**30,160**	30,132
	185,670	280,247

The amount of trading and manufacturing inventories, included above, carried at net realisable value is $41,616,000 (2000: $33,863,000).

Properties held for sale are carried at net realisable value based on management estimates by reference to prevailing market conditions.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Debtors, prepayments and other receivables	**200,947**	128,579	**30,391**	37,207
Gross amount due from customers for contract work	**5,902**	9,046	**—**	—
Amounts due from associates	**8,272**	2,104	**—**	—
Amounts due from related companies	**23,586**	46,076	**—**	30,443
	238,707	185,805	**30,391**	67,650

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

Included in the Group's and the Company's debtors, prepayments and other receivables is a deposit of $30,000,000 for the acquisition of an unlisted equity investment. The acquisition transaction was completed on 22nd January, 2002 *(Note 33(ii))*.

Most of the Group's sales are cash sales. For credit sales, a credit period of 60 days to 90 days is granted. An ageing of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The Company has no trade debtors outstanding at balance sheet date.

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group	
	2001	2000
	$'000	*$'000*
Current	**39,851**	29,913
Due over 6 months but within 12 months	**5,507**	2,711
Due over 12 months but within 24 months	**1,218**	6,224
Due over 24 months but within 36 months	**—**	—
Due over 36 months	**—**	14,760
	46,576	53,608

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

22. PLEDGED DEPOSITS

	Group	
	2001	2000
	$'000	*$'000*
Pledged deposits with banks	**53,392**	49,495

Fixed deposits with banks of $50,035,000 (2000: $38,797,000) were pledged as security against general banking facilities of certain subsidiaries, and fixed deposits of $3,357,000 (2000: $10,698,000) were pledged in respect of a bank guarantee issued to a customer of a subsidiary.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks and other financial institutions	**45,638**	20,919	**—**	—
Cash at bank and in hand	**239,341**	315,034	**4,852**	2,318
	284,979	335,953	**4,852**	2,318

24. BANK LOANS AND OVERDRAFTS

	Group	
	2001	2000
	$'000	*$'000*
Secured	**52,271**	48,959
Unsecured	**—**	9,887
	52,271	58,846

Bank loans and overdrafts are repayable as follows:—

Within 1 year or on demand	**52,271**	53,458
Between 1 year and 2 years	**—**	5,388
	52,271	58,846

The secured bank loans and overdrafts are secured by bank deposits of $50,035,000 (2000: $38,797,000) *(Note 22)* and the pledge of certain investment properties of subsidiaries with an aggregate carrying value of $4,820,000 (2000: $Nil) *(Note 12(c))* and land and buildings held by a subsidiary in the PRC with carrying value of $2,503,000 (2000: $Nil) *(Note 13(d))*.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

25. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Creditors, accruals and other payables	**182,431**	274,097	**3,865**	7,868
Amounts due to associates	**11,506**	5,616	**—**	—
Amounts due to related companies	**19,404**	20,328	**12**	—
	213,341	300,041	**3,877**	7,868

The creditors, accruals and other payables include bills payable of $Nil (2000: $21,231,000) which are secured by the pledge of properties of certain subsidiaries.

The Company has no trade creditors outstanding at balance sheet date.

Included in the Group's creditors, accruals and other payables are trade creditors and bills payable with the following ageing analysis:

	Group	
	2001	2000
	$'000	*$'000*
Due within 6 months or on demand	**72,626**	157,293
Due after 6 months but within 12 months	**5,789**	6,397
Due after 12 months but within 24 months	**12,616**	2,692
	91,031	166,382

26. DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	Group	
	2001	2000
	$'000	*$'000*
Balance at 1st January	**—**	39,850
Transfer to consolidated income statement *(Note 8(a))*	**—**	(24,729)
Exchange adjustment	**—**	6
Transfer to current taxation *(Note 8(b))*	**—**	(15,127)
Balance at 31st December	**—**	—

(b) There is no significant deferred tax liability for which provision has not been made.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

27. SHARE CAPITAL

	2001		2000	
	Number of Shares		Number of Shares	
	('000)	***$'000***	*('000)*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1st January	**1,055,511**	**105,551**	1,039,601	103,960
Shares issued under private placement	**65,000**	**6,500**	—	—
Shares issued under share option scheme	**1,590**	**159**	—	—
Shares issued upon acquisition of an associate	**76,464**	**7,646**	15,910	1,591
At 31st December	**1,198,565**	**119,856**	1,055,511	105,551

(a) During the year ended 31st December, 2001, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

(b) On 4th July, 2001, a private placement to individual investors of a total of 65,000,000 new shares of $0.10 each in the Company at a price of $1.20 per share was arranged. The shares were issued on 17th July, 2001. These new shares rank pari passu with the then existing shares in all respects.

(c) On 18th April, 2001, 76,464,267 new shares of $0.10 each in the Company were allotted and issued to Stone Group Corporation at a price of $1.13 per share to satisfy as consideration for the acquisition from the Group's major shareholder, Stone Group Corporation of a 25% interest in Mitsubishi Stone Semiconductor Co. Ltd. ("MSSC"). The new shares rank pari passu with the then existing shares in all respects.

(d) On 29th May, 2001, options were exercised to subscribe for 1,590,000 ordinary shares in the Company at a consideration of $1,004,880, of which $159,000 was credited to share capital and the balance of $845,880 was credited to the share premium account. At 31st December, 2001, the outstanding options were:

Date options granted	**Period during which options exercisable**	**Exercise price** *$*	**Number of options outstanding 2001**	2000
29th February, 2000	29th August, 2000 to 22nd July, 2003	2.796	**11,500,000**	11,500,000
21st October, 2000	21st April, 2001 to 22nd July, 2003	0.632	**—**	1,590,000
15th August, 2001	15th February, 2002 to 22nd July, 2003	0.7264	**14,151,000**	—

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

28. RESERVES

	Capital redemption reserve	Share premium	Capital reserve	Investment revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
(a) Group							
At 1st January, 2001	151	873,971	(74,841)	—	(3,980)	(95,074)	700,227
Prior year adjustment *(note 34)*	—	—	16,616	—	—	(16,616)	—
At 1st January, 2001 after adjustment (restated)	151	873,971	(58,225)	—	(3,980)	(111,690)	700,227
Share premium on issue of shares							
— as consideration for acquisition of an associate	—	78,720	—	—	—	—	78,720
— under share option scheme	—	846	—	—	—	—	846
— under private placement	—	69,070	—	—	—	—	69,070
Capital reserve released on disposal of an associate	—	—	54,891	—	—	—	54,891
Impairment loss on goodwill	—	—	18,601	—	—	—	18,601
Exchange differences arising on consolidation	—	—	—	—	(3,208)	—	(3,208)
Unrealised loss on revaluation	—	—	—	(48,480)	—	—	(48,480)
Loss for the year	—	—	—	—	—	(123,229)	(123,229)
At 31st December, 2001	**151**	**1,022,607**	**15,267**	**(48,480)**	**(7,188)**	**(234,919)**	**747,438**
Attributable to:							
The Company and subsidiaries	151	1,022,607	15,267	(48,480)	(5,577)	(232,737)	751,231
Associates	—	—	—	—	(1,611)	(2,182)	(3,793)
	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

28. RESERVES *(Cont'd)*

	Capital redemption reserve	Share premium	Capital reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
(a) Group						
At 1st January, 2000	151	847,338	(56,399)	(4,295)	121,191	907,986
Prior year adjustment (note 34)	—	—	16,616	—	(16,616)	—
At 1st January, 2000 after adjustment (restated)	151	847,338	(39,783)	(4,295)	104,575	907,986
Share premium on issue of shares	—	26,633	—	—	—	26,633
Goodwill arising on acquisition of subsidiary and associates	—	—	(18,391)	—	—	(18,391)
Capital reserve released on disposal of subsidiaries	—	—	(51)	—	—	(51)
Exchange differences arising on consolidation	—	—	—	315	—	315
Loss for the year	—	—	—	—	(216,265)	(216,265)
At 31st December, 2000	**151**	**873,971**	**(58,225)**	**(3,980)**	**(111,690)**	**700,227**
Attributable to:						
The Company and subsidiaries	151	873,971	(58,225)	(7,280)	(116,398)	692,219
Associates	—	—	—	3,300	4,708	8,008
	151	873,971	(58,225)	(3,980)	(111,690)	700,227

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on or derived from acquisition or disposal of subsidiaries and associates and the foreign currency translation.

The investment revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the gain or loss on disposal of non-trading securities and for goodwill arising on subsidiaries and associates.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

28. RESERVES *(Cont'd)*

(b) Company

	Capital redemption reserve $'000	Share premium $'000	Investment revaluation reserve $'000	Accumulated losses $'000	Total $'000
At 1st January, 2001	151	873,971	—	(53,930)	820,192
Share premium on issue of shares					
— as consideration for acquisition of an associate	—	78,720	—	—	78,720
— under share option scheme	—	846	—	—	846
— under private placement	—	69,070	—	—	69,070
Unrealised loss on revaluation	—	—	(4,730)	—	(4,730)
Loss for the year	—	—	—	(177,589)	(177,589)
At 31st December, 2001	**151**	**1,022,607**	**(4,730)**	**(231,519)**	**786,509**

Company

	Capital redemption reserve $'000	Share premium $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1st January, 2000	151	847,338	62,366	909,855
Share premium on issue of shares	—	26,633	—	26,633
Loss for the year	—	—	(116,296)	(116,296)
At 31st December, 2000	**151**	**873,971**	**(53,930)**	**820,192**

There is no distributable reserve of the Company as at 31st December, 2001 (2000: $Nil).

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from ordinary activities before share of profits and losses of associates to net cash outflow from operating activities

	2001	2000
	$'000	$'000
Loss from ordinary activities before share of profits and losses of associates	**(117,573)**	(266,011)
Interest charges	**4,089**	8,302
Interest income	**(10,467)**	(15,808)
Income from listed investments	**—**	(4)
Income from unlisted investments	**—**	(62)
Amortisation and depreciation	**12,000**	12,384
Loss on sale of investment	**—**	18
Loss on disposal of interest in associates	**15,197**	—
Loss on disposal of interest in subsidiaries	**—**	4,818
(Gain)/loss on sale of property, plant and equipment	**(1,120)**	2,544
Revaluation deficit/(surplus) on investment properties	**1,855**	(2,555)
Impairment loss on non-trading equity securities	**—**	5,676
Net realised/unrealised loss on equity securities	**38,602**	196,558
Impairment loss on properties	**8,237**	26,968
Impairment loss on goodwill and other intangible assets	**26,542**	—
Increase in amounts due to/due from associates (net)	**(278)**	(28,110)
Decrease in inventories	**97,562**	3,041
Increase in debtors, prepayments and other receivables	**(45,646)**	(3,412)
Decrease/(increase) in gross amount due from customers for contract work	**3,144**	(9,046)
Increase in pledged deposits	**(3,897)**	(2,035)
Decrease/(increase) in amounts due from related companies	**14,507**	(15,559)
(Decrease)/increase in creditors, accruals and other payables	**(105,296)**	100,514
Decrease in amounts due to related companies	**(16,572)**	(37,928)
Foreign exchange	**621**	(373)
Net cash outflow from operating activities	**(78,493)**	(20,080)

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Analysis of the balances of cash and cash equivalents as shown in the consolidated balance sheet

	2001	2000
	$'000	*$'000*
Cash and bank balances	**284,979**	335,953
Bank loans and overdrafts repayable within three months	**(49,160)**	(4,582)
	235,819	331,371

(c) Acquisition of subsidiaries

	2001	2000
	$'000	*$'000*
Net assets acquired:		
Property, plant and equipment	**1,447**	3,328
Inventories	**2,957**	37,360
Intangible assets	**8,654**	8,474
Other financial assets	**138,888**	—
Debtors, prepayments and other receivables	**26,727**	43,715
Pledged deposits	**—**	10,698
Cash at bank and in hand	**24,391**	24,970
Amounts due to group companies	**(15,648)**	(18,771)
Creditors, accruals and other payables	**(7,872)**	(23,697)
Minority shareholders' interests	**(80,385)**	(26,468)
	99,159	59,609
Goodwill on acquisition of subsidiary	**—**	18,598
Total consideration	**99,159**	78,207
Satisfied by:		
Shares allotted	**—**	28,288
Equity investments	**63,994**	—
Cash consideration	**31,389**	11,313
Current account	**3,776**	38,606
	99,159	78,207

Subsidiaries acquired during the year contributed $72,000 of the Group's net operating cash flows.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(d) Analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2001	2000
	$'000	$'000
Cash consideration	(31,389)	(11,313)
Cash at bank and in hand acquired	24,391	24,970
Net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(6,998)	13,657

(e) Disposal of interest in subsidiaries

	2001	2000
	$'000	$'000
Net assets disposed of:		
Property, plant and equipment	—	3,733
Inventories	—	18,846
Debtors, prepayments and other receivables	—	38,658
Cash at bank and in hand	—	2,559
Bank loans	—	(14,134)
Creditors, accruals and other payables	—	(38,667)
Minority shareholders' interests	—	(476)
	—	10,519
Capital reserve released on disposal	—	(51)
Loss on disposal	—	(4,818)
	—	5,650
Satisfied by:		
— increase in interest in associates	—	5,650

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(f) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries

	2001	2000
	$'000	*$'000*
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries represents cash at bank and in hand disposed of	**—**	(2,559)

(g) Analysis of changes in financing during the year

	Share capital (including premium)	**Bank loans**
	$'000	***$'000***
Balance at 1st January, 2001	979,522	54,264
Issue of shares	162,941	—
New bank loans	—	3,071
Repayment of bank loans	—	(54,265)
Effect of foreign exchange rates	—	41
Balance at 31st December, 2001	**1,142,463**	**3,111**

	Share capital (including premium)	**Bank loans**
	$'000	***$'000***
Balance at 1st January, 2000	951,298	147,365
Cash outflow from financing	—	(79,277)
Shares issued for non-cash consideration	28,224	—
Bank loans of subsidiaries disposed of	—	(14,134)
Effect of foreign exchange rates	—	310
Balance at 31st December, 2000	979,522	54,264

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(h) Major non-cash transactions

(i) As detailed in note 27(c), 76,464,267 new shares of the Company were issued at $1.13 each as the consideration for the acquisition of 25% interest in Mitsubishi Stone Semiconductor Co., Ltd.

(ii) As detailed in note 17(c), during the year, the Group's equity interest in Sina.com increased to 20.6% by way of share exchange between a subsidiary of the Company and a third party investor at market value of $60,186,000.

(iii) As detailed in note 32(i), during the year, Beta-One Enterprise Limited ("Beta-One") assigned to Stone Group Corporation accounts receivable totalling $12,176,000 in return for the transfer of shares of Sina.com and Soaring High Investments Limited at market value of the same amount on the transaction date.

30. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31st December, 2001 not provided for in the accounts were as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Contracted for	**879**	—	**879**	—

(b) Operating lease commitments

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

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**5,530**	2,174	**385**	30
After 1 year but within 5 years	**13,601**	1,102	**301**	—
After 5 years	**3,666**	2,236	**—**	—
	22,797	5,512	**686**	30

(c) Other commitments

At 31st December, 2001, the Group had commitments under forward exchange contracts for hedging purposes to buy Japanese Yen 122,791,000 (2000: buy Japanese Yen 520,032,000) during 2002.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

31. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Guarantees given to banks in respect of credit facilities granted to subsidiaries	**—**	—	**76,848**	143,546
Counter guarantee for a bank loan given to an associate	**57,855**	—	**57,855**	—
	57,855	—	**134,703**	143,546

32. MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

(a) Transactions with and amounts paid to or received from Stone Group Corporation, which owns 49% equity interest in the Company's immediate holding company, and its subsidiaries:

	2001	2000
	$'000	*$'000*
Sale of traded products	**29,858**	26,421
Purchase of traded products and component parts	**2,163**	1,157
Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services *(Note 1)*	**2,592**	2,589
Interest paid	**539**	1,157
Interest received	**22**	2,259
Rental paid for staff quarters	**480**	240
Rental income on properties *(Note 2)*	**1,756**	1,523
Handling fee *(Note 3)*	**1,903**	1,391
Purchase of lighting products *(Note 4)*	**—**	14,597

	2001	2000
(b) Purchase of traded products and component parts from a minority shareholder of a subsidiary	**100,577**	131,988
(c) Transactions with associates of the Group		
Sales of traded products	**2,780**	35,144
Purchases of traded products and component parts	**19,277**	167,028

(d) In prior years, Stone Group Corporation guaranteed the settlement of certain debtors of a non-wholly owned subsidiary of the Group of $14,760,000. In November 2001, $12,176,000 of such outstanding accounts receivable were assigned to Stone Group Corporation in return for equity securities owned by subsidiaries of Stone Group Corporation *(see Note (i))*. The balance of such guaranteed debts of $2,584,000 was settled by Stone Group Corporation in cash during the year.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

32. MATERIAL RELATED PARTY TRANSACTIONS *(Cont'd)*

(e) One of the subsidiaries of Stone Group Corporation ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company.

(f) The Group placed deposits totalling $7,087,000 (2000: $5,019,000) as at 31st December 2001 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

(g) In January 2001, the Company's subsidiary, Beijing Stone Electronic Technology Company Limited ("Beijing Stone Electronic") and Stone Group Corporation entered into an agreement pursuant to which Stone Group Corporation holds in trust for Beijing Stone Electronic, the investment in 25% equity interest in China Cable Information Network Company Limited ("China Cable"). Stone Group Corporation agreed to reimburse the Company for any loss, to be capped at the original investment cost of $108,388,000, arising in the event that the Group's beneficial ownership in China Cable is restricted due to PRC regulatory reasons.

(h) In July 2001, the Company entered into a conditional agreement with Stone Group Corporation to inject US$10,000,000 (equivalent to $78,000,000) into Beijing Stone Electronic such that the investment capital of Beijing Stone Electronic will be increased from US$10,000,000 to US$20,000,000. Upon completion, the Company's equity interest in Beijing Stone Electronic will be increased from 75% to 87.5%.

(i) In November 2001, Beta-One Enterprise Limited ("Beta-One"), a subsidiary of the Company, entered into a conditional agreement with Stone Group Corporation to assign to Stone Group Corporation accounts receivable in the aggregate sum of $12,176,000 due by various debtors for a consideration of $12,176,000. The consideration was satisified by way of Stone Group Corporation procuring Springbend Holdings Limited, a wholly owned subsidiary of Stone Group Corporation, to transfer (i) 628,301 ordinary shares of Sina.com at market value of approximately $7,988,000; and (ii) 25 ordinary shares of Soaring High Investments Limited at market value of $4,188,000 to Beta-One or such other party as may be directed by Beta-One.

Notes:

1. In August 1998, the Company entered into a management contract with Stone Group Corporation, pursuant to which Stone Group Corporation agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed $2,750,000 per annum for a term of five years commencing from 23rd July, 1998.

2. A subsidiary of the Company acquired the Stone Building situated in Beijing from Stone Group Corporation during 1996 and leased various units of the Stone Building to Stone Group Corporation for a lease term of three years commencing 1st August, 1996. The lease term will be renewed on an annual basis thereafter. The rental income received for the year ended 31st December, 2001 was calculated at a daily rate of RMB6 per square metre which was considered to be not materially different from the then market rental.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

32. MATERIAL RELATED PARTY TRANSACTIONS *(Cont'd)*

3. In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with Stone Group Corporation, pursuant to which Beijing New Technology appointed Stone Group Corporation to act as its agent to deal with all import procedural matters during the year 2000. The agreement will be renewed on an annual basis thereafter. A handling fee was payable to Stone Group Corporation pursuant to the Agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.

4. During 2000, Beijing New Technology from time to time purchased lighting products from Shanghai Stone Hu Guang Electric Shareholding Company Limited ("Shanghai Hu Guang"), which was then a 51% owned subsidiary of Stone Group Corporation. Shanghai Hu Guang became an associate of the Group during the year.

5. Sale of traded products and component parts by the Group's wholly-owned subsidiaries to non-wholly owned subsidiaries and their year end trade balances thereof have been eliminated on consolidation.

33. POST BALANCE SHEET EVENTS

(i) On 18th January, 2002, the Company entered into a conditional agreement with Stone Group Corporation to acquire from Stone Group Corporation the remaining 12.5% equity interest in Beijing Stone Electronic for a consideration of RMB18,000,000 (equivalent to approximately $16,965,000) in cash. Upon completion, Beijing Stone Electronic will become a wholly-owned subsidiary of the Company. This transaction was completed on 30th January, 2002.

(ii) On 22nd January, 2002, the Company entered into a conditional sale and purchase agreement to acquire 49% of the equity interest in East.net Technology Investments Ltd ("East.net") at a consideration of $14,700,000. On the same date, a loan amounting to $15,300,000 was made to the founders of East.net which is secured by the remaining 51% of the equity interest in East.net owned by the founders.

34. CHANGE IN ACCOUNTING POLICY

Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve as appropriate. With effect from 1st January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 1(v).

The Group has taken advantage of the transitional provisions set out in SSAP 30 with the effect that the new accounting policy has been adopted retrospectively and an impairment loss of $16,616,000 on positive goodwill has been charged as an expense in the income statement as a prior year adjustments. The Group's results for the year ended 31st December, 2000 and 2001 are not affected as the directors consider that the impairment arose in existed in the year prior to 1st January, 2000. The Group's net assets at the year end are not affected as goodwill has already been set-off against reserves on acquisition.

As a result of the new accounting policy, the Group's loss for the year has been increased by $21,112,000 (2000: $Nil) and the net assets as at the year end have been decreased by $12,548,000 (2000: $Nil).

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31st December, 2001 to be Beijing Stone Investment Company Limited, a company established in the PRC.

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for goodwill, details of which are set out in notes 14 and 34. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

37. SUBSIDIARIES

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31st December, 2001, are as follows:—

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Stone Advance Technology Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Stone Potant Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Wealth Fountain Limited	Hong Kong	$100,000	100%	Sourcing of component parts for the manufacture of Sales Tax electronic cash registers and Values Added Tax invoice processors
Prexton Investment Limited	Hong Kong	$10,000	100%	Property investment
Beta-One Enterprise Limited	Hong Kong	$1,000,000	80%	Trading of telecommunication products

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

37. SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Beijing Stone Office Equipment Technology Co., Ltd. ("Beijing Sotec")	PRC	US$4,800,000	70%	Manufacture of Sales Tax electronic cash registered and Value Added Tax invoice processors
Shenzhen SOTEC Electronic Co., Ltd.	PRC	RMB11,195,565	70%	Manufacture of electronic products
Beijing Stone Electronic Technology Co., Ltd.	PRC	US$20,000,000	87.5%	Investment holding
Beijing Stone New Technology Industrial Company Limited* ("Beijing New Technology")	PRC	RMB175,000,000	87.5%	Investment holding and distribution and sale of electronic and electrical products and office equipment
Shenzhen Shentong Printing Equipment Co., Ltd.*	PRC	US$3,000,000	**45.7%	Manufacture of printers and related parts
Shanghai Stone-MTI Computer Engineering Company Limited	PRC	RMB30,800,000	71%	Provision of comprehensive GIS solutions, software development and integration
Beijing Stone Industrial Control Technology Company Limited*	PRC	RMB30,000,000	***53.96%	Sale of industrial controllers products
Shenyang Stone Limited Liability Company*	PRC	RMB5,150,723	##56.88%	Sale of electronic and electrical products and office equipment

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

37. SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Sun Stone Media Group Limited*	BVI	$8	###51%	Broadcasting business and the provision of related technical services
Tianjin Stone Computer Equipment Corporation Limited*	PRC	US$800,000	****65.6%	Manufacture and sale of fluorescent electronic ballasts
Stone Online Sci & Tech Co., Ltd. (Beijing)* ("Stone Online")	PRC	RMB22,500,000	*****70%	Investment holding

* *Indirect holding.*

This subsidiary is 65% owned by Beijing New Technology in which the Company has 87.5% indirect interest.

This subsidiary is 100% owned by Sun Stone New Media Limited in which the Company has 51% direct interest.

** *This subsidiary is 24% directly owned by the Company and 31% directly owned by Beijing Sotec in which the Company has 70% direct interest.*

*** *This subsidiary is 61.67% owned by Beijing New Technology in which the Company has 87.5% indirect interest.*

**** *This subsidiary is 75% owned by Beijing New Technology in which the Company has 87.5% indirect interest.*

***** *This subsidiary is 80% owned by Beijing New Technology in which the Company has 87.5% indirect interest.*

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

38. ASSOCIATES

Details of the principal associates, which materially affected the results or assets of the Group at 31st December, 2001, are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Zhengzhou Stone Company*	PRC	RMB200,000	43.75%	Sale of electronic and office equipment
Jinan Stone Company*	PRC	RMB360,000	29.75%	Sale of electronic and electrical products, and office equipment
Beijing Bailu Office Article Co., Ltd.*	PRC	RMB4,497,527	26.25%	Manufacture and sale of office furniture
Beijing GOT Business Computer Systems Co., Ltd.*	PRC	US$5,000,000	#17.50%	Manufacture of electronic cash registers
Beijing Stone Zhi Neng Construction System Company*	PRC	RMB15,000,000	35%	Installation of intelligent system for housing estates and commercial buildings
Beijing Stone Digital Technology Co., Ltd.*	PRC	RMB50,000,000	26.25%	Provision for electronic commerce service
Sina.com*	The Cayman Islands/PRC	US$6,105,000	##10.51%	Provision of media-related and internet services
Hong Dun Online Sci & Tech Co., Ltd. (Shaanxi)*	PRC	RMB50,000,000	###22.05%	Design of web page and provision of internet services
Mitsubishi Stone Semiconductor Company Limited	PRC	US$35,000,000	25%	Package and testing Mitsubishi's semiconductor chips

* *Indirect holding.*

\# *This associate is 20% owned by Beijing New Technology in which the Company has 87.5% indirect interest.*

\## *This associate is 20.6% owned by Sun Stone Media Group Limited in which the Company has 51% indirect interest.*

\### *This associate is 31.5% owned by Stone Online in which the Company has 70% indirect interest.*