

Notes to the Financial Statements

1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 31, 32 and 33, respectively.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs had led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group’s accounting policies that have affected the amounts reported for the current or prior periods.

Leases

SSAP No. 14 (Revised) “Leases” (“SSAP 14”) has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group’s leasing arrangements. Disclosures for all of the Group’s leasing arrangements have been modified so as to comply with the requirements of SSAP 14. Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP No. 26 “Segment reporting”. Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

Notes to the Financial Statements (Continued)

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

Goodwill

In adopting SSAP No. 30 “Business combinations” (“SSAP 30”), the Group has elected to restate goodwill previously eliminated against reserves. Accordingly, the amount of such goodwill has been remeasured in accordance with the requirements of SSAP 30. Following the restatement, goodwill arising on the acquisition of associates in 2000 is presented within the carrying amount of interests in associates in the balance sheet, resulting in an increase in the Group’s net assets at 31 December 2000 of approximately HK\$86,050,000. Such goodwill is amortised, using the straight line method, over its estimated useful life.

Accumulated amortisation in respect of goodwill between the date of acquisition of the relevant associate and the date of adoption of SSAP 30 should generally be recognised retrospectively. However, this effect of such change in accounting policy on the prior period results is not significant and, accordingly, no adjustment to the prior period results has been made.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Goodwill is capitalised and amortised on a straight line basis over its useful economic life, which in general is not more than twenty years.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Turnover

Turnover represents the amount received and receivable for goods sold and marketing consultancy services provided.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Marketing consultancy service income is recognised when services are provided.

Interest income is accrued on a time basis by reference to principal outstanding and at the interest rate applicable.

Option income for the metals trading is recognised when the option contract expires or is exercised.

Dividend income from investments in securities is recognised when the Group's rights to receive dividend payments have been established.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account the estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	25%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of that asset and is recognised in the income statement.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

The consolidated income statement includes the Group's share of post-acquisition results of jointly controlled entities for the year. The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost less any impairment loss. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories, which represents merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

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 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 recognised 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible note payable

The convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable, including the premium payable upon the final redemption of the convertible note, is calculated so as to produce a constant periodic rate of change on the remaining balance of the convertible note payable for each accounting period.

The costs incurred in connection with the issue of the convertible note payable are deferred and amortised on a straight-line basis over the lives of the convertible note payable from the date of issue of the convertible note to the final redemption date. If any of the note is purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, associates and joint ventures which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions - metals trading, sales of communication products, investment in securities and provision of marketing consultancy services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

INCOME STATEMENT

	2001					Total HK\$'000
	Sales of Metals trading HK\$'000	Sales of communication products HK\$'000	Investment in securities HK\$'000	Marketing in consultancy services HK\$'000	Others HK\$'000	
Turnover	192	5,454	—	5,000	—	10,646
Segment result	(1,045)	(10,714)	29,433	3,300	—	20,974
Interest income	—	—	—	—	—	922
Unallocated corporate expenses	—	—	—	—	—	(16,497)
Profit from operations						5,399
Share of results of associates	—	—	12,030	—	(626)	11,404
Share of results of joint ventures	—	(997)	—	—	—	(997)
Amortisation of goodwill	—	—	(31,074)	—	(6,859)	(37,933)
Finance costs						(6,263)
Loss before taxation						(28,390)
Taxation						(62)
Net loss for the year						(28,452)

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

INCOME STATEMENT (Continued)

	2000				Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investment in securities HK\$'000	Others HK\$'000	
Turnover	113,351	7,899	—	—	121,250
Segment result	15,566	(3,976)	(126,475)	(96)	(114,981)
Interest income	—	—	—	—	8,509
Unallocated corporate expenses	—	—	—	—	(25,662)
Loss from operations					(132,134)
Share of results of associates	—	—	(4,387)	6,603	2,216
Share of results of joint ventures	—	(1,880)	—	—	(1,880)
Gain on disposal of subsidiaries and a joint venture	13,610	—	—	—	13,610
Impairment loss recognised in respect of loans and receivable due from associate	(55,009)	—	—	—	(55,009)
Write off of goodwill arising on investment in a joint venture	—	(10,000)	—	—	(10,000)
Finance costs					(5,764)
Loss before taxation					(188,961)
Taxation					(119)
Net loss for the year					(189,080)

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET

	2001		2000	
	Segment	Segment	Segment	Segment
	assets	liabilities	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Metals trading	56,366	4,727	10,804	3,807
Sales of communication products	13,453	3,666	15,501	1,330
Investment in securities	338,759	—	399,340	—
Marketing consultancy services	—	—	—	—
Other corporate assets/liabilities	31,139	56,750	—	95,000
	<u>439,717</u>	<u>65,143</u>	<u>425,645</u>	<u>100,137</u>

OTHER INFORMATION

	2001	2000
	HK\$'000	HK\$'000
Capital additions		
Metals trading	1,726	207
Sales of communication products	<u>896</u>	<u>—</u>
Depreciation and amortisation		
Metals trading	276	210
Sales of communication products	<u>210</u>	<u>—</u>

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover		Profit (loss) from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, excluding				
Hong Kong	5,128	74,714	(9,767)	(3,727)
Hong Kong	5,193	7,123	15,721	(126,440)
Korea	—	20,553	—	(1,025)
Others	325	18,860	(555)	(942)
	<u>10,646</u>	<u>121,250</u>	<u>5,399</u>	<u>(132,134)</u>

- (ii) The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31.12.2001	31.12.2000	Year ended 31.12.2001	Year ended 31.12.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, excluding				
Hong Kong	1,889	—	896	—
Hong Kong	437,828	425,645	1,726	207
	<u>439,717</u>	<u>425,645</u>	<u>2,622</u>	<u>207</u>

Notes to the Financial Statements (Continued)

5. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Interest income on bank deposits	922	8,509
Dividend income from investments in securities	1,266	175
Option income	—	1,368
Others	9	1,171
	<u>2,197</u>	<u>11,223</u>

6. PROFIT (LOSS) FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Directors' emoluments	10,249	5,891
Other staff costs	5,105	8,037
Total staff costs	<u>15,354</u>	<u>13,928</u>
Auditors' remuneration		
Current year	780	680
Underprovision in previous years	—	180
Bad and doubtful debts	124	2,364
Cost of inventories recognised	4,901	95,535
Depreciation		
Own assets	486	164
Leased assets	—	46
Loss on disposal of property, plant and equipment	34	57
Minimum lease payments under operating leases in respect of		
Rented premises	2,938	939
Motor vehicles	<u>581</u>	<u>545</u>

Notes to the Financial Statements (Continued)

6. PROFIT (LOSS) FROM OPERATIONS (Continued)

(i) Information regarding directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' emoluments:		
Directors' fees		
Executive	—	—
Independent non-executive	900	200
	<u>900</u>	<u>200</u>
Other emoluments to executive directors		
Salaries and other benefits	9,349	5,691
	<u>9,349</u>	<u>5,691</u>
Total emoluments	<u>10,249</u>	<u>5,891</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
HK\$nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$4,000,001 to HK\$4,500,000	1	—
	<u>1</u>	<u>—</u>

In the year ended 31 December 2000, two directors waived emoluments of HK\$800,000. No directors waived any emoluments in the year ended 31 December 2001.

(ii) Information regarding employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2000: four) of them were directors of the Company. The emoluments of the remaining one individual in 2000 were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	—	2,298
	<u>—</u>	<u>2,298</u>

Notes to the Financial Statements (Continued)

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on borrowings wholly repayable within five years:		
Convertible note payable	(2,024)	—
Short term loans	(3,989)	(1,979)
Bank borrowings	—	(3,776)
	<u>(6,013)</u>	<u>(5,755)</u>
Amortisation of the issue costs of convertible note payable	(250)	—
Finance lease charges	—	(9)
	<u>(6,263)</u>	<u>(5,764)</u>

8. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Share of Hong Kong Profits Tax of associates	(51)	(45)
Share of overseas tax of joint ventures	(11)	(74)
	<u>(62)</u>	<u>(119)</u>

No provision for taxation has been made for the Group in the financial statements since the Company and its subsidiaries incurred tax losses for the year.

No provision for deferred taxation has been provided in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

Notes to the Financial Statements (Continued)

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$28,452,000 (2000: HK\$189,080,000) and on the weighted average of 5,776,581,606 shares in issue (2000: 3,970,112,724 shares in issue).

Diluted loss per share figures are not presented for either 2001 or 2000 as the effect of the potential ordinary shares outstanding in respect of the convertible note payable was anti-dilutive and the exercise price of the Company's warrants outstanding was higher than the average fair value of the Company's shares during both years.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
COST				
At 1 January 2001	428	649	615	1,692
Additions	—	461	2,161	2,622
Disposals	—	—	(86)	(86)
At 31 December 2001	428	1,110	2,690	4,228
DEPRECIATION				
At 1 January 2001	86	457	536	1,079
Provided for the year	86	143	257	486
Eliminated on disposals	—	—	(22)	(22)
At 31 December 2001	172	600	771	1,543
NET BOOK VALUES				
At 31 December 2001	256	510	1,919	2,685
At 31 December 2000	342	192	79	613

Notes to the Financial Statements (Continued)

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2001	428	225	86	739
Additions	—	90	1,636	1,726
Disposals	—	—	(86)	(86)
At 31 December 2001	428	315	1,636	2,379
DEPRECIATION				
At 1 January 2001	86	33	7	126
Provided for the year	86	59	131	276
Eliminated on disposals	—	—	(22)	(22)
At 31 December 2001	172	92	116	380
NET BOOK VALUES				
At 31 December 2001	256	223	1,520	1,999
At 31 December 2000	342	192	79	613

Notes to the Financial Statements (Continued)

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,822	65,822
Amounts due from subsidiaries	684,129	711,166
	<u>749,951</u>	<u>776,988</u>
Impairment loss	(349,826)	(350,000)
	<u>400,125</u>	<u>426,988</u>

Details of the Company's subsidiaries at 31 December 2001 are set out in note 31.

12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	232,905	218,839
Goodwill		
Balance at beginning of the year	86,050	—
Arising from acquisitions during the year	38,000	86,050
	<u>124,050</u>	<u>86,050</u>
Amortised during the year and balance at end of the year	(37,933)	—
Unamortised goodwill	86,117	86,050
Loans due from associates (net of impairment losses recognised)	—	—
	<u>319,022</u>	<u>304,889</u>

Notes to the Financial Statements (Continued)

12. INTERESTS IN ASSOCIATES (Continued)

Goodwill arising from the acquisitions of associates is amortised over its economic life of three years.

Loans due from associates, which amount to HK\$54,050,000, are unsecured, non-interest bearing and have no fixed repayment terms.

Details of the Group's associates at 31 December 2001 are set out in note 32.

The Group has an approximately 34.87% interest in the issued ordinary share capital of Beauforte Investors Corporation Limited, a company which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Group's share of net assets in Beauforte Investors Corporation Limited and its subsidiaries was approximately HK\$232,905,000 (2000: HK\$218,839,000). The following details have been extracted from the audited consolidated financial statements of Beauforte Investors Corporation Limited:

	2001 HK\$'M	2000 HK\$'M
Result for the year		
Turnover	<u>24.0</u>	<u>41.7</u>
Profit before taxation	32.8	4.9
Taxation (charge) credit	<u>(0.2)</u>	<u>4.1</u>
	<u>32.6</u>	<u>9.0</u>
Share of post-acquisition results by the Group during the year	<u>11.4</u>	<u>2.2</u>
Financial position		
Non-current assets	263.0	103.0
Current assets	406.1	526.0
Current liabilities	<u>(1.1)</u>	<u>(1.4)</u>
Net assets	<u>668.0</u>	<u>627.6</u>
Net assets attributable to the Group	<u>232.9</u>	<u>218.8</u>

Notes to the Financial Statements (Continued)

13. INTERESTS IN JOINT VENTURES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	<u>7,043</u>	<u>8,046</u>

Details of the Group's joint ventures as at 31 December 2001 are set out in note 33.

14. INVENTORIES

THE GROUP

At the balance sheet date, all of the Group's inventories were carried at net realisable value.

15. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Trade receivables	2,085	4,979
Other receivables, deposits and prepayments	<u>2,205</u>	<u>1,182</u>
	<u>4,290</u>	<u>6,161</u>

The Group has adopted a credit policy of allowing invoices to be payable within 180 days from the date of issuance for sales of communication equipment and 30 days from the date of issuance for metals trading. The Group also allows a longer credit period to major customers.

Notes to the Financial Statements (Continued)

15. TRADE AND OTHER RECEIVABLES (Continued)

An aged analysis of trade receivables is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Not yet due	1,412	4,979
Overdue 0 - 60 days	1	—
Overdue over 90 days	672	—
	<u>2,085</u>	<u>4,979</u>

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Trading securities		
Listed equity securities in Hong Kong, at market value	<u>50,812</u>	<u>94,443</u>

Notes to the Financial Statements (Continued)

17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade payables	1,299	107
Other payables and accrued charges	7,094	5,030
	<u>8,393</u>	<u>5,137</u>

An aged analysis of trade payables is as follows:

Not yet due	—	107
Overdue 0 - 30 days	33	—
Overdue over 90 days	1,266	—
	<u>1,299</u>	<u>107</u>

18. SHORT TERM LOANS

THE GROUP AND THE COMPANY

At 31 December 2000, short term loans were secured by the Group's equity interest in Beauforte Investors Corporation Limited, an associate of the Group, with a carrying value of approximately HK\$218,839,000 at 31 December 2000, and bore interest at prevailing market rates. The amounts were repaid in 2001.

Notes to the Financial Statements (Continued)

19. CONVERTIBLE NOTE PAYABLE

	THE GROUP AND THE COMPANY 2001 HK\$'000
Convertible note payable	
Issued during the year	60,000
Converted during the year	(2,000)
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Balance at the end of the year	58,000
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Issue costs	
Incurred during the year	1,500
Amortised during the year	(250)
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Balance at the end of the year	1,250
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Carrying value at the end of the year	<u>56,750</u>

On 30 May 2001, the Company entered into an agreement (the "Agreement") with a placing agent for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$60,000,000 (the "Convertible Note") in denomination of HK\$100,000 each. The Convertible Note is unsecured and bears interest at 7% per annum, accrued on a daily basis and payable every year in arrears. The Convertible Note may be converted into ordinary shares of the Company at an initial price of HK\$0.028 per share and the conversion prices will be HK\$0.031 and HK\$0.034 per share for the period from the date immediately following the first anniversary from the date of issue of the Convertible Note (the "Issue Date") to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date. These conversion prices are subject to adjustments in accordance with the relevant provisions in the Agreement. The Convertible Note can only be repaid at its face value upon maturity on 2 July 2004 to the extent of the amount not previously converted.

During the year, Convertible Notes amounting to HK\$2,000,000 were converted into ordinary shares.

Notes to the Financial Statements (Continued)

20. SHARE CAPITAL

	Number of ordinary shares	Issued and fully paid share capital HK\$'000
Share of HK\$0.10 each for the period from 1 January 2000 to 7 March 2001 or HK\$0.01 each for the period from 8 March 2001 to 31 December 2001		
Balance as at 1 January 2000	1,088,200,000	108,820
Issue of shares:		
– by placements	1,000,000,000	100,000
– upon exercise of warrants	85,818	9
– by rights issues	2,610,408,000	261,040
	<hr/>	<hr/>
Balance as at 31 December 2000 and 1 January 2001	4,698,693,818	469,869
Transfer to contributed surplus resulting from cancelling the paid up capital to the extent of HK\$0.09 on each issued share	—	(422,882)
Issue of shares:		
– by placements	2,067,300,000	20,673
– conversion of convertible note payable	71,428,571	714
	<hr/>	<hr/>
Balance as at 31 December 2001	<u>6,837,422,389</u>	<u>68,374</u>

Pursuant to a special resolution passed at the special general meeting held on 8 March 2001, the authorised share capital of the Company was reduced from HK\$2,000,000,000 to HK\$200,000,000 by cancelling the paid up capital to the extent of HK\$0.09 on each issued share in the Company and reducing the nominal value of the authorised and unissued share capital from HK\$0.10 each to HK\$0.01 each (the “Reorganisation”). Reserve arising from the Reorganisation was credited to the contributed surplus of the Company. The shareholders also approved that the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$500,000,000 by the creation of an additional 30,000,000,000 ordinary shares of HK\$0.01 each. Such new shares rank pari passu in all respects with the then existing issued and unissued shares of HK\$0.01 each in the share capital of the Company.

Notes to the Financial Statements (Continued)

20. SHARE CAPITAL (Continued)

Details of movements in the issued and fully paid share capital of the Company were as follows:

- (a) On 30 May 2001, the Company entered into agreement with a placing agent for the placement of 939,700,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.022 per share. The placement was completed on 7 June 2001 and these shares rank pari passu in all respects with the then existing shares of the Company. The net proceeds of the placement was applied for general working capital purposes.
- (b) On 4 July 2001, a holder of the Convertible Note exercised its rights to convert an amount of HK\$2,000,000 into 71,428,571 ordinary shares of the Company.
- (c) On 9 July 2001, the Company announced that the Company proposed to place 1,127,600,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.048 per share. The placement was completed on 19 July 2001. The net proceeds of the placement was applied for general working capital purposes.

21. WARRANTS

On 14 October 1999, the Company issued warrants in registered form in units of HK\$0.15 of subscription rights entitling their holders to subscribe for share of HK\$0.10 each of the Company at an initial price of HK\$0.15 per share, subject to adjustment, at any time on or after the date of issue thereof but not later than 18 October 2002. The subscription price of the warrants was adjusted from HK\$0.15 per share to HK\$0.11 per share with effect from 8 March 2000 as a result of a rights issue. Warrants carrying subscription rights of HK\$9,600 were exercised in 2000.

At 31 December 2001, warrants carrying subscription rights of HK\$18,134,400 (2000: HK\$18,134,400), representing 164,858,181 (2000: 164,858,181) shares of the Company to be issued under the present capital structure, remained outstanding.

Notes to the Financial Statements (Continued)

22. RESERVES

	Share premium	Contributed surplus	Translation reserve	Capital reserve	Investment revaluation reserve	Accumulated (losses) profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
Balance at 1 January 2000	70,198	—	276	802	—	(40,838)	30,438
Share premium arising from issue of shares, net of expenses	11,757	—	—	—	—	—	11,757
Share premium arising from exercise of warrants	1	—	—	—	—	—	1
Realised on disposal of subsidiaries	—	—	(276)	—	—	—	(276)
Share of reserve movements of associates	—	—	—	—	2,799	—	2,799
Net loss for the year	—	—	—	—	—	(189,080)	(189,080)
Balance at 31 December 2000 and 1 January 2001	81,956	—	—	802	2,799	(229,918)	(144,361)
Share premium arising from issue of shares, net of expenses	52,127	—	—	—	—	—	52,127
Share premium arising on conversion of convertible note payable	1,286	—	—	—	—	—	1,286
Contributed surplus arising from the Reorganisation	—	422,882	—	—	—	—	422,882
Share of reserve movements of associates	—	—	—	—	2,713	—	2,713
Share of reserve movements of joint ventures	—	—	5	—	—	—	5
Net loss for the year	—	—	—	—	—	(28,452)	(28,452)
Balance at 31 December 2001	135,369	422,882	5	802	5,512	(258,370)	306,200
Attributable to:							
The Company and its subsidiaries	135,369	422,882	—	802	—	(262,805)	296,248
Associates	—	—	—	—	5,512	7,397	12,909
Joint ventures	—	—	5	—	—	(2,962)	(2,957)
	<u>135,369</u>	<u>422,882</u>	<u>5</u>	<u>802</u>	<u>5,512</u>	<u>(258,370)</u>	<u>306,200</u>

Notes to the Financial Statements (Continued)

22. RESERVES (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1 January 2000	70,198	65,621	(151,549)	(15,730)
Share premium arising from issue of shares, net of expenses	11,757	—	—	11,757
Share premium arising from exercise of warrants	1	—	—	1
Net loss for the year	—	—	(231,653)	(231,653)
Balance at 31 December 2000 and 1 January 2001	81,956	65,621	(383,202)	(235,625)
Share premium arising from issue of shares, net of expenses	52,127	—	—	52,127
Share premium arising from conversion of convertible note payable	1,286	—	—	1,286
Contributed surplus arising from the Reorganisation	—	422,882	—	422,882
Net loss for the year	—	—	(22,193)	(22,193)
Balance at 31 December 2001	135,369	488,503	(405,395)	218,477

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1998. The contributed surplus of the Group represents the amount arising from cancelling the paid up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the Reorganisation in 2001.

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation in 1998 and the amount arising from cancelling the paid up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the Reorganisation in 2001.

Notes to the Financial Statements (Continued)

22. RESERVES (Continued)

Under the laws in Bermuda, the contributed surplus account of the Company is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	488,503	65,621
Accumulated losses	<u>(405,395)</u>	<u>(383,202)</u>
	<u>83,108</u>	<u>(317,581)</u>

Notes to the Financial Statements (Continued)

23. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(28,390)	(188,961)
Loss on disposal of property, plant and equipment	34	57
Depreciation and amortisation	486	210
Unrealised (gain) loss on trading securities	(8,362)	126,085
Net realised gain on trading securities	(20,288)	(335)
Interest income	(922)	(8,509)
Interest expenses	6,013	5,755
Amortisation of convertible note payable	250	—
Dividend income	(1,266)	(175)
Finance lease charges	—	9
Share of results of associates	(11,404)	(2,216)
Share of results of joint ventures	997	1,880
Amortisation of goodwill	37,933	—
Gain on disposal of subsidiaries	—	(8,610)
Gain on disposal of a joint venture	—	(5,000)
Provision for loans and receivable due from associates	—	55,009
Write off of goodwill arising on investment in a joint venture	—	10,000
Increase in inventories	(343)	(4,586)
Decrease in trade and other receivables	1,871	95,862
Increase in trade and other payables	1,232	2,580
	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	<u>(22,159)</u>	<u>79,055</u>

Notes to the Financial Statements (Continued)

24. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of comprise:		
Property, plant and equipment	—	26,088
Inventories	—	4,680
Trade and other receivables	—	58,032
Bank balances and cash	—	11,226
Trade and other payables	—	(16,481)
Taxation payable	—	(6,052)
Bank loans	—	(58,375)
	<u>—</u>	<u>19,118</u>
Realisation of reserves upon disposal of subsidiaries	—	(276)
Gains on disposal of subsidiaries	—	8,610
	<u>—</u>	<u>8,610</u>
	<u>—</u>	<u>27,452</u>
Satisfied by:		
Cash	—	27,452
	<u>—</u>	<u>27,452</u>
Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries:		
Cash consideration received	—	27,452
Bank balances and cash disposed of	—	(11,226)
	<u>—</u>	<u>16,226</u>
	<u>—</u>	<u>16,226</u>

The subsidiaries disposed of in 2000 contributed approximately HK\$3,738,000 to the Group's net operating cash inflow, paid approximately HK\$3,697,000 in respect of the net returns on investment and servicing of finance and received approximately HK\$5,190,000 from investing activities.

Notes to the Financial Statements (Continued)

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Short term loans HK\$'000	Obligations under finance leases HK\$'000	Bank loans HK\$'000	Convertible note payable HK\$'000
Balance at 1 January 2000	179,018	48,287	109	58,375	—
Proceeds from issue of shares	381,229	—	—	—	—
Expenses incurred on issue of shares	(8,422)	—	—	—	—
New loans raised	—	95,000	—	—	—
Repayment during the year	—	(48,287)	(109)	—	—
Disposal of subsidiaries	—	—	—	(58,375)	—
Balance at 31 December 2000 and 1 January 2001	551,825	95,000	—	—	—
Proceeds from issue of shares	74,798	—	—	—	—
Expenses incurred on issue of shares	(1,998)	—	—	—	—
New loans raised	—	40,000	—	—	—
Repayment during the year	—	(135,000)	—	—	—
Proceeds from issue of convertible note payable	—	—	—	—	60,000
Issue costs incurred	—	—	—	—	(1,500)
Conversion during the year	2,000	—	—	—	(2,000)
Other movements not involving cash flows	(422,882)	—	—	—	250
Balance at 31 December 2001	203,743	—	—	—	56,750

Notes to the Financial Statements (Continued)

26. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

27. PLEDGE OF ASSETS

At 31 December 2000, the Group pledged its interest in an associate with a carrying value of approximately HK\$218,839,000 to secure credit facilities granted to the Group.

At 31 December 2001, the Group did not pledge any of its assets.

28. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
In respect of rented premises:				
Within one year	2,103	2,203	945	1,027
In the second to fifth year inclusive	52	2,041	31	914
	<u>2,155</u>	<u>4,244</u>	<u>976</u>	<u>1,941</u>
In respect of motor vehicles:				
Within one year	<u>22</u>	<u>131</u>	<u>22</u>	<u>131</u>

29. CONTINGENT LIABILITIES

The Company has given unlimited corporate guarantee to a bank and certain financial institutions for the general banking facilities granted to a subsidiary. At the balance sheet date, none of the credit facilities were utilised.

Notes to the Financial Statements (Continued)

30. RELATED PARTY TRANSACTIONS

The Group paid rentals of approximately HK\$376,000 (2000: HK\$460,000) for hiring motor vehicles from Very Nice Development Limited and Bonnie International Development Limited. Mr. Chiu Tao and Mr. Yeung Kwok Yu are directors of the Company and had beneficial interests in Very Nice Development Limited and Bonnie International Development Limited.

The above transactions were carried out after negotiations between the Group and the related parties.

31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Beijing Tetra Digital Technology Communication Co. Ltd.	The People's Republic of China	Registered Capital HK\$5,000,000	—	100%	Developing and trading of communication equipment
Cache Up Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities Investment
China Digital Communication Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Trading of communication equipment and provision of marketing consultancy services

Notes to the Financial Statements (Continued)

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals trading
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals trading
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding

Notes to the Financial Statements (Continued)

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital		Principal activities
			held by the Company		
			Directly %	Indirectly %	
Winford Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

* The companies are engaged in investment business and have no specific principal place of operation.

None of the subsidiaries had any debt capital at 31 December 2001 or at any time during the year.

32. PARTICULARS OF ASSOCIATES

Particulars of the Group's associates as at 31 December 2001 are as follows:

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital		Principal activities
			held by the Group		
Absolute Profits Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%		Inactive
Autopower Technology Limited	British Virgin Islands*	4 ordinary shares of US\$1 each	50%		Investment holding
Beauforte Finance (International) Limited	Cayman Islands*	500 ordinary shares of US\$1 each	34.87%		Inactive

Notes to the Financial Statements (Continued)

32. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Beauforte Investors Corporation Limited	Hong Kong	29,282,000 ordinary shares of HK\$4 each	34.87%	Investment holding
Beauforte Holdings Limited	Hong Kong	45,000,000 ordinary shares of HK\$1 each	34.87%	Dormant
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	49%	Investment holding
Gold East Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Inactive
I-Active Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Lambda Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment
Leader Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Inactive
Maxfull Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Inactive
Ocean Pearl Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Inactive
Qinyang Chinachem Aluminium Co. Limited	The People's Republic of China	Registered capital RMB154,000,000	29.40%	Metals manufacture
Splendid Rewards Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment

Notes to the Financial Statements (Continued)

32. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
United Crown Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment
Vason Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment
Willthorn Investments Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding
Wincom Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Lending
Workshop Holdings Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment

* These companies are engaged in investment business and have no specific principal place of operation.

33. PARTICULARS OF JOINT VENTURES

Particulars of the Group's joint ventures as at 31 December 2001 are as follows:

Name of joint venture	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	The People's Republic of China	Registered capital HK\$2,000,000	50%	Trading of communication products