

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 40.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES

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 has 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 standards 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 14 (Revised) Leases 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. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). 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 26 Segment Reporting. Segment disclosures for the year ended 31st December 2000 have been amended so that they are presented on a consistent basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES (Continued)

Goodwill

In the current year, the Group has adopted SSAP 30 Business Combinations and 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. Accumulated amortisation in respect of goodwill between the date of acquisition of the relevant subsidiary and the date of adoption of SSAP 30 has been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet and is amortised over its estimated useful life.

The financial effect of the adoption of the new/revised accounting policies described above is summarised below:

	Accumulated profits (losses)	Capital reserve	Total
	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2000			
As originally stated	12,218	(45,835)	(33,617)
Restatement as an asset of goodwill previously written off against reserves with retrospective recognition of accumulated amortisation	(48,764)	56,980	8,216
As restated	(36,546)	11,145	(25,401)

The effect of these changes in accounting policies on the results for the current and prior period is as follows:

	2001	2000
	HK\$'000	HK\$'000
Amortisation of goodwill	1,613	1,613

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain leasehold land and buildings.

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 31st 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 between group enterprises are eliminated on consolidation.

Turnover

Turnover represents the amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

Revenue recognition

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

Rental income, including rentals invoiced in advance from properties let under operating leases, are recognised on a straight line basis over the term of the relevant lease.

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

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Commission income is recognised on an accrual basis when the Group's entitlement to payments has been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of 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.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Certain of the Group's leasehold land and buildings were revalued at 31st December 1994. The surplus arising on revaluation of these properties was credited to asset revaluation reserve. The Group has adopted the transitional relief provided by paragraph 80 of SSAP 17 (Revised) Property, Plant and Equipment issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any future impairment losses recognised in respect of these properties will be charged to the consolidated income statement to the extent that it exceeds the surplus, if any, held in asset revaluation reserve relating to previous revaluations of the particular property.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives using the straight line method, as follows:

Land held on long and medium term leases	Over the term of the relevant lease
Buildings	Over the shorter of the term of the lease, or 25 years
Leasehold improvements	Over the term of the relevant lease
Others	5 years

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as assets owned by the Group.

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 at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Club memberships

Club memberships are stated at cost, as reduced by any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for electronic products and the weighted average cost method for other inventories.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets held under finance leases and hire purchase contracts

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases or hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor or hirer, net of interest charges, is included in the balance sheet as a finance lease or hire purchase obligation. Finance costs, which represent the difference between the total commitments and the outstanding principal amount at the inception of the finance leases or hire purchase contracts, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the terms of the relevant lease.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's retirement benefits scheme.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operations are organised into two operating divisions namely distribution of electronic goods and distribution of sports products. These divisions are the basis on which the Group reports its primary segment information. In October 2001 and December 2001 respectively, the businesses of manufacturing of electronic goods and distribution of fashion apparel, leather goods and accessories were discontinued.

Segment information about these businesses is presented below.

2001

	Continuing operations		Discontinued operations		Eliminations	Consolidated
	Distribution of electronic goods	Distribution of sports products	Manufacturing of electronic goods	Distribution of fashion apparel, leather goods and accessories		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER						
External sales	1,017,259	68,840	15,701	(8,659)	—	1,093,141
Inter-segment sales	981	—	68	—	(1,049)	—
Total	1,018,240	68,840	15,769	(8,659)	(1,049)	1,093,141

Inter-segment sales are charged at prevailing market prices.

RESULT						
Segment result	27,591	5,266	(49,583)	(29,564)	—	(46,290)
Net investment income						3,784
Unallocated corporate expenses						(12,288)
Unallocated corporate income						1,656
Finance costs						(15,025)
Deficit on revaluation of investment properties						(2,000)
Loss before taxation						(70,163)
Taxation						(2,250)
Loss before minority interests						(72,413)
Minority interests						(662)
Loss for the year						(73,075)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2001 (Continued)

	Continuing operations		Discontinued operations			Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Manufacturing of electronic goods HK\$'000	Distribution of fashion apparel, leather goods and accessories HK\$'000	Others HK\$'000	
BALANCE SHEET						
ASSETS						
Segment assets	454,073	47,724	240	5,259		507,296
Unallocated corporate assets						167,599
Total assets						674,895
LIABILITIES						
Segment liabilities	374,059	15,163	1,615	1,006		391,843
Unallocated corporate liabilities						4,523
Total liabilities						396,366

OTHER INFORMATION

	Continuing operations		Discontinued operations			Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Manufacturing of electronic goods HK\$'000	Distribution of fashion apparel, leather goods and accessories HK\$'000	Others HK\$'000	
Capital additions	5,329	—	925	121	243	6,618
Amortisation of goodwill	—	—	—	—	1,613	1,613
Deficit on revaluation of investment properties	—	—	—	—	2,000	2,000
Depreciation and amortisation	2,995	197	3,535	278	5,362	12,367
Impairment on inventories	—	—	20,869	13,000	—	33,869
Allowances for bad and doubtful debts	—	—	—	10,000	—	10,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2000

	Continuing operations		Discontinued operations			Eliminations HK\$'000	Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Manufacturing of electronic goods HK\$'000	Manufacturing of leather goods and accessories HK\$'000	Distribution of fashion apparel, leather goods and accessories HK\$'000		
TURNOVER							
External sales	953,671	63,445	93,436	1,185	—	—	1,111,737
Inter-segment sales	10,118	—	111	—	(10,229)	—	—
Total	963,789	63,445	93,547	1,185	(10,229)	—	1,111,737

Inter-segment sales are charged at prevailing market prices.

	Continuing operations	Discontinued operations	Eliminations	Consolidated		
RESULT						
Segment result	19,937	5,626	15,709	(5,862)	—	35,410
Net investment income						5,231
Unallocated corporate expenses						(10,275)
Unallocated corporate income						2,924
Finance costs						(17,307)
Profit before taxation						15,983
Taxation						(1,949)
Profit before minority interests						14,034
Minority interests						(1,583)
Profit for the year						12,451

	Continuing operations		Discontinued operations			Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Manufacturing of electronic goods HK\$'000	Manufacturing of leather goods and accessories HK\$'000	Distribution of fashion apparel, leather goods and accessories HK\$'000	
BALANCE SHEET						
ASSETS						
Segment assets	412,323	44,730	51,109	30,645	—	538,807
Unallocated corporate assets						200,703
Total assets						739,510
LIABILITIES						
Segment liabilities	327,135	15,295	18,304	84	—	360,818
Unallocated corporate liabilities						27,750
Total liabilities						388,568

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2000 (Continued)

OTHER INFORMATION

	Continuing operations		Discontinued operations				Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Manufacturing of electronic goods HK\$'000	Distribution of fashion apparel, leather goods and accessories HK\$'000	Others HK\$'000		
Capital additions	5,096	38	2,681	130	4,284	12,229	
Amortisation of goodwill	—	—	—	—	1,613	1,613	
Depreciation and amortisation	1,937	213	4,051	50	4,758	11,009	

Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and Taiwan. The Group's distribution of electronic goods is carried out in Hong Kong, the PRC and Taiwan. Distribution of sports products is carried out in Hong Kong and the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		(Loss) profit from operations	
	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2000 HK\$'000	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2000 HK\$'000
Hong Kong	664,317	735,891	2,175	20,533
PRC	300,129	274,388	(5,342)	9,818
Taiwan	107,301	41,154	261	1,094
Others	21,394	60,304	(43,384)	3,965
	1,093,141	1,111,737	(46,290)	35,410
Net investment income			3,784	5,231
Unallocated corporate income			1,656	2,924
Unallocated corporate expenses			(12,288)	(10,275)
Finance costs			(15,025)	(17,307)
Deficit on revaluation of investment properties			(2,000)	—
(Loss) profit before taxation			(70,163)	15,983
Taxation			(2,250)	(1,949)
(Loss) profit before minority interests			(72,413)	14,034
Minority interests			(662)	(1,583)
(Loss) profit for the year			(73,075)	12,451

Revenue from the Group's discontinued operations was derived principally from Hong Kong of HK\$2,028,000 (2000: HK\$27,758,000), PRC of (HK\$9,480,000) (2000: HK\$11,124,000), Taiwan of HK\$431,000 (2000: HK\$1,667,000) and other locations of HK\$14,063,000 (2000: HK\$54,072,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

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	
	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2000 HK\$'000	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2000 HK\$'000
Hong Kong	511,242	555,348	5,140	2,271
PRC	105,179	170,399	1,478	9,958
Taiwan	56,156	9,110	—	—
Others	2,318	4,653	—	—
	674,895	739,510	6,618	12,229

5. NET INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Dividend income from unlisted investment securities	2	248
Interest income	3,782	4,989
Loss on disposal of other investments	—	(6)
	3,784	5,231

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

6. PROFIT (LOSS) FROM OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
— basic salaries and allowances	31,694	28,595
— retirement benefits scheme contributions, net of forfeited contributions of HK\$169,000 (2000: HK\$157,000)	979	586
	32,673	29,181
Amortisation of goodwill (included in administrative expenses)	1,613	1,613
Auditors' remuneration	689	603
Depreciation and amortisation of property, plant and equipment		
— owned assets	12,295	10,216
— assets held under finance leases and a hire purchase contract	72	793
Loss on disposal of property, plant and equipment	4,475	—
and after crediting:		
Gain on disposal of property, plant and equipment	—	34
Rental income from properties, net of outgoings of HK\$113,000 (2000: HK\$67,000)	1,502	1,550

7. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	14,528	16,912
— bank borrowings not wholly repayable within five years	468	322
— obligations under finance leases and a hire purchase contract	29	73
	15,025	17,307

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' REMUNERATIONS

Particulars of the directors' and the five highest paid individuals' remunerations were as follows:

(a) Directors' remunerations

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive directors	—	—
Non-executive director	—	—
Independent non-executive directors	290	340
Other emoluments:		
Executive directors		
— basic salaries and allowances	4,998	6,154
— performance related incentive payments	1,175	—
— retirement benefits scheme contributions	119	49
Total emoluments	6,582	6,543

The directors' remunerations were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	7	7
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$3,500,001 to HK\$4,000,000	1	—

(b) Employees' remunerations

Of the five highest paid individuals in the Group, three (2000: three) are directors of the Company whose remunerations are set out in (a) above. The remuneration of the remaining two individuals (2000: two) was as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries and allowances	1,416	1,278
Retirement benefits scheme contributions	43	69
	1,459	1,347

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' REMUNERATIONS (Continued)

(b) Employees' remunerations (Continued)

The remuneration of each of the employees was under HK\$1,000,000.

During the years ended 31st December 2001 and 2000, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st December 2001 and 2000, no directors waived any emoluments.

9. DISCONTINUED OPERATIONS

In October 2001, the Group ceased its operations in the manufacturing of electronic goods due to the continuing unsatisfactory performance of the operations of its factory in the PRC.

In December 2001, the Group ceased its operations in the distribution of fashion apparel, leather goods and accessories.

The loss arising on discontinuation of operations for the year ended 31st December 2001 arose as follows:

	HK\$'000
Impairment on inventories	33,869
Allowances for bad and doubtful debts	10,000
Loss on disposal of property, plant and equipment	4,475
	<u>48,344</u>

10. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,513	2,244
Underprovision in prior years	183	155
Taxation outside Hong Kong	—	26
	<u>2,696</u>	2,425
Deferred taxation (note 29)	(446)	(476)
	<u>2,250</u>	1,949

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

10. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation outside Hong Kong was calculated at the rates prevailing in the relevant jurisdictions.

Details of deferred taxation are set out in note 29.

11. (LOSS) PROFIT FOR THE YEAR

Of the Group's loss for the year of HK\$73,075,000 (2000: profit of HK\$12,451,000), a loss of HK\$61,984,000 (2000: HK\$39,153,000) has been dealt with in the financial statements of the Company.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the year is based on the following data:

	2001	2000
	HK\$'000	HK\$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share		
— (Loss) profit for the year	(73,075)	12,451
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	230,140,720	205,649,092
Effect of dilutive potential ordinary shares:		
Convertible preference shares		8,797,814
Share options		2,842,084
Weighted average number of ordinary shares for the purposes of diluted earnings per share		217,288,990

No diluted loss per share for the year ended 31st December 2001 has been presented since the exercise of the Company's share options would result in a decrease in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

12. (LOSS) EARNINGS PER SHARE (Continued)

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic	Diluted
	HK cents	HK cents
Reconciliation of 2000 earnings per share:		
Reported figures before adjustments	6.84	6.47
Adjustments arising from the adoption of new/revised accounting standards	(0.79)	(0.74)
Reported figures after adjustments	6.05	5.73

13. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1st January 2001	60,000
Deficit on revaluation	(2,000)
At 31st December 2001	58,000

At 31st December 2001, the investment properties of the Group were revalued by an independent firm of professional property valuers, Chesterton Petty Limited, on an open market value basis at HK\$58,000,000. The deficit arising on revaluation amounted to HK\$2,000,000 has been charged to the consolidated income statement.

The investment properties are held under medium term leases in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles and vessel	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January 2001	79,759	12,899	18,566	9,808	11,251	13,354	145,637
Additions	—	2,841	835	1,235	1,205	502	6,618
Disposals	—	(5,027)	(19,401)	(1,321)	(3,238)	(433)	(29,420)
At 31st December 2001	79,759	10,713	—	9,722	9,218	13,423	122,835
Comprising:							
At cost	34,409	10,713	—	9,722	9,218	13,423	77,485
At valuation — 1994	45,350	—	—	—	—	—	45,350
	79,759	10,713	—	9,722	9,218	13,423	122,835
DEPRECIATION AND AMORTISATION							
At 1st January 2001	12,080	7,171	12,898	6,795	6,593	7,641	53,178
Provided for the year	2,419	2,371	2,332	1,124	1,692	2,429	12,367
Eliminated on disposals	—	(4,800)	(15,230)	(839)	(2,740)	(301)	(23,910)
At 31st December 2001	14,499	4,742	—	7,080	5,545	9,769	41,635
NET BOOK VALUES							
At 31st December 2001	65,260	5,971	—	2,642	3,673	3,654	81,200
At 31st December 2000	67,679	5,728	5,668	3,013	4,658	5,713	92,459

The net book value of leasehold land and buildings held by the Group at the balance sheet date comprises:

	2001	2000
	HK\$'000	HK\$'000
Held in Hong Kong under medium term leases	56,251	58,475
Held in the PRC under long leases	9,009	9,204
	65,260	67,679

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at HK\$50,722,000 (2000: HK\$52,532,000).

At 31st December 2001, the net book value of motor vehicles and vessel included an amount of HK\$288,000 (2000: Nil) in respect of asset held under a hire purchase contract.

15. GOODWILL

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
<hr/>		
COST		
At 1st January	58,198	56,980
Arising on acquisition during the year	—	1,218
<hr/>		
At 31st December	58,198	58,198
<hr/>		
AMORTISATION		
At 1st January	50,377	48,764
Charge for the year	1,613	1,613
<hr/>		
At 31st December	51,990	50,377
<hr/>		
NET BOOK VALUES		
At 31st December	6,208	7,821

The amortisation period adopted for goodwill ranging from 5 to 10 years.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
<hr/>		
Unlisted shares (Note)	92,577	92,577
Amounts due from subsidiaries	418,476	427,571
<hr/>		
	511,053	520,148
Less: Impairment loss	(190,000)	(130,000)
<hr/>		
	321,053	390,148

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1994.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

16. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

During the year, a subsidiary ceased its operations in the manufacturing of electronic goods and an impairment loss in respect of amount due from this subsidiary has been recognised accordingly.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Particulars of the Company's subsidiaries at 31st December 2001 are set out in note 40.

17. INVESTMENT SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares in Hong Kong, at cost	1,103	1,103
Listed shares in overseas, at cost	7,319	7,319
	8,422	8,422
Market value of listed shares	3,904	10,377

The directors are of an opinion that the investments are worth at least their carrying amounts.

18. LOAN TO AN INVESTEE

The loan to an investee of the Group is unsecured, non-interest bearing and has no fixed terms of repayment. The amount is advanced to an investee which is engaged in property re-development in Hong Kong.

In the opinion of the directors, the amount will not be repayable within twelve months of the balance sheet date and, accordingly, is classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

19. CLUB MEMBERSHIPS

	THE GROUP	
	2001 & 2000	
	HK\$'000	
Club memberships, at cost		
Hong Kong		1,447
Overseas		2,510
		3,957

The directors are of the opinion that the club memberships are worth at least their carrying amounts.

20. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	203	20,537
Work in progress	—	12,753
Finished goods	157,850	121,940
	158,053	155,230

Included above are raw materials of HK\$203,000 (2000: HK\$203,000) and finished goods of HK\$7,365,000 (2000: HK\$13,441,000), which are carried at net realisable values.

At 31st December 2000, work in progress of HK\$426,000 were carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

21. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods ranging from 30 days to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$272,370,000 (2000: HK\$333,362,000) and their aged analysis is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within 30 days	89,193	86,337
More than 30 days and within 60 days	40,926	45,017
More than 60 days and within 90 days	25,740	49,652
More than 90 days	116,511	152,356
	272,370	333,362

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$121,486,000 (2000: HK\$126,214,000) and their aged analysis is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within 30 days	59,293	64,562
More than 30 days and within 60 days	12,732	31,982
More than 60 days and within 90 days	18,271	11,619
More than 90 days	31,190	18,051
	121,486	126,214

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

23. OBLIGATIONS UNDER A HIRE PURCHASE CONTRACT

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable under a hire purchase contract:				
Within one year	92	—	72	—
In the second to fifth year inclusive	240	—	188	—
	332	—		
Less: future finance charges	(72)	—		
Present value of hire purchase contract	260	—	260	—
Less: Amount due for settlement within one year shown under current liabilities			(72)	—
Amount due for settlement after one year			188	—

It is the Group's policy to lease certain of its motor vehicles under hire purchase contracts. The lease term is 5 years. For the year ended 31st December 2001, the effective borrowing rate is 6.6%. The lease is paid on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under a hire purchase contract is secured by the hirer's charge over the leased asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

24. BANK AND OTHER BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
<hr/>		
Bank and other borrowings comprise:		
Bank loans	73,318	44,359
Bank import loans	140,875	140,024
Bank overdrafts	17,449	39,362
Other loan	5,000	2,000
	<hr/>	
	236,642	225,745
	<hr/>	
Analysed as:		
Secured	226,316	176,354
Unsecured	10,326	49,391
	<hr/>	
	236,642	225,745
	<hr/>	
The bank and other borrowings are repayable as follows:		
Within one year or on demand	233,018	220,608
More than one year, but not exceeding two years	930	1,439
More than two years, but not exceeding five years	2,237	2,714
More than five years	457	984
	<hr/>	
	236,642	225,745
Less: Amount due within one year shown under current liabilities	(233,018)	(220,608)
	<hr/>	
Amount due after one year	3,624	5,137
	<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

25. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1st January 2000	1,500,000,000	150,000
Reclassified to non-redeemable convertible preference shares	(46,000,000)	(4,600)
At 31st December 2000 and 31st December 2001	1,454,000,000	145,400
<i>Issued and fully paid:</i>		
At 1st January 2000	128,396,720	12,840
Issue of shares	55,600,000	5,560
Exercise of share options	5,900,000	590
Conversion of convertible preference shares	46,000,000	4,600
Share repurchased and cancelled	(5,756,000)	(576)
At 31st December 2000 and 31st December 2001	230,140,720	23,014
	Number of non-redeemable convertible preference shares	Amount HK\$'000
Non-redeemable convertible preference shares of HK\$0.10 each		
<i>Authorised:</i>		
Reclassified from ordinary shares and balance at 31st December 2000 and 31st December 2001	46,000,000	4,600
<i>Issued and fully paid:</i>		
At 1st January 2000	—	—
Issue of shares	46,000,000	4,600
Converted to ordinary shares	(46,000,000)	(4,600)
At 31st December 2000 and 31st December 2001	—	—

There were no movements in the share capital of the Company during the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

26. SHARE OPTIONS

At 31st December 2001, the options to subscribe for shares outstanding under the Company's share option scheme were as follows:

Month of grant	Exercise price per share	Exercisable period	Number of share options outstanding at 31.12.2001
	HK\$		
March 1997	2.50	5th March 1999– 4th March 2002	40,000
September 1997	3.80	29th September 1997– 16th September 2004	1,000,000
May 2000	0.59	4th May 2002– 3th May 2004	200,000
June 2000	0.57	17th June 2002– 16th June 2004	400,000
June 2000	0.57	20th June 2000– 19th June 2002	1,600,000
May 2001	0.39	2nd May 2001– 1st May 2002	4,110,000
June 2001	0.49	12th June 2001– 11th June 2002	400,000
June 2001	0.49	14th June 2001– 13th June 2003	800,000
			8,550,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

27. RESERVES

	Share premium	Capital redemption reserve	Capital reserve	Contributed surplus	Asset revaluation reserve	Translation reserve	Accumulated profits (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1st January 2000								
As originally stated	161,277	533	(45,835)	70,510	29,271	(867)	12,218	227,107
Prior period adjustments (Note 2)	—	—	56,980	—	—	—	(48,764)	8,216
As restated	161,277	533	11,145	70,510	29,271	(867)	(36,546)	235,323
Exchange differences arising on translation of operations outside Hong Kong								
Kong	—	—	—	—	—	(521)	—	(521)
Premium arising on issue of shares	80,902	—	—	—	—	—	—	80,902
Expenses incurred in connection with the issue of shares								
	(1,652)	—	—	—	—	—	—	(1,652)
Shares repurchased and cancelled:								
Premium on shares repurchased	(2,646)	—	—	—	—	—	—	(2,646)
Transfer	—	576	—	—	—	—	(576)	—
Profit for the year (As restated)	—	—	—	—	—	—	12,451	12,451
At 31st December 2000	237,881	1,109	11,145	70,510	29,271	(1,388)	(24,671)	323,857
Loss for the year	—	—	—	—	—	—	(73,075)	(73,075)
At 31st December 2001	237,881	1,109	11,145	70,510	29,271	(1,388)	(97,746)	250,782
THE COMPANY								
At 1st January 2000								
As originally stated	161,277	533	—	162,787	—	—	(82,460)	242,137
Premium arising on issue of shares	80,902	—	—	—	—	—	—	80,902
Expenses incurred in connection with the issue of shares								
	(1,652)	—	—	—	—	—	—	(1,652)
Shares repurchased and cancelled:								
Premium on shares repurchased	(2,646)	—	—	—	—	—	—	(2,646)
Transfer	—	576	—	—	—	—	(576)	—
Loss for the year	—	—	—	—	—	—	(39,153)	(39,153)
At 31st December 2000	237,881	1,109	—	162,787	—	—	(122,189)	279,588
Loss for the year	—	—	—	—	—	—	(61,984)	(61,984)
At 31st December 2001	237,881	1,109	—	162,787	—	—	(184,173)	217,604

The capital reserve of the Group represents:

- (i) the acquisition of shares in subsidiaries from minority shareholders pursuant to the Group reorganisation of HK\$10,445,000; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

27. RESERVES (Continued)

- (ii) the differences between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation in September 1994, over the nominal value of the Company's shares issued in exchange of HK\$700,000.

At 31st December 2001, the asset revaluation reserve includes an amount of HK\$10,582,000 (2000: HK\$10,582,000) relating to a property previously held as a leasehold property and reclassified as an investment property in 1997. The amount is frozen upon the transfer to an investment property until the disposal or retirement of the related asset. On the disposal or retirement of the asset, the frozen revaluation reserve will be transferred directly to accumulated profits.

The contributed surplus of the Company represents:

- (i) the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition; and
- (ii) the credit arising from the reduction of nominal value of the consolidated shares from HK\$1.00 each to HK\$0.10 each by cancelling HK\$0.90 paid up on each issued share, after a transfer of HK\$10,565,000 towards the elimination of the accumulated losses of the Company as at 31st December 1997.

The contributed surplus of the Group represents the credit arising from the reduction of nominal value of the consolidated shares from HK\$1.00 each to HK\$0.10 each by cancelling HK\$0.90 paid up on each issued share, after a transfer of HK\$10,565,000 towards the elimination of the accumulated losses of the Company as at 31st December 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

At 31st December 2001, the Company had no reserves available for distribution. At 31st December 2000, the reserves available for distribution was HK\$40,598,000, which represented the contributed surplus of HK\$162,787,000 less accumulated losses of HK\$122,189,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

28. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

29. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance at 1st January	1,243	1,719
Credit for the year (note 10)	(446)	(476)
Balance at 31st December	797	1,243

The components of the deferred tax liability (asset) of the Group, provided and unprovided, are as follows:

	Provided		Unprovided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess (shortfall) of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	1,590	2,036	102	(1,748)
Taxation losses	(793)	(793)	(14,231)	(9,715)
	797	1,243	(14,129)	(11,463)

The deferred tax asset has not been recognised in the financial statements as the realisation of this asset in the foreseeable future is uncertain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

29. DEFERRED TAXATION (Continued)

The components of the deferred taxation credit of the Group not recognised in the financial statements for the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	1,850	908
Taxation losses arising	(4,516)	(3,083)
	(2,666)	(2,175)

Deferred taxation has not been provided for on the valuation surplus arising on the valuation of properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The Company had no significant unprovided deferred taxation during the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

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

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(70,163)	15,983
Interest income	(3,782)	(4,989)
Dividend income	(2)	(248)
Interest expenses	15,025	17,307
Allowances for bad and doubtful debts	10,000	—
Amortisation of goodwill	1,613	1,613
Depreciation and amortisation of property, plant and equipment	12,367	11,009
Impairment on inventories	33,869	—
Loss (gain) on disposal of property, plant and equipment	4,475	(34)
Deficit on revaluation of investment properties	2,000	—
Loss on disposal of other investments	—	6
Increase in inventories	(36,692)	(44,155)
Decrease (increase) in trade and other receivables	41,849	(88,987)
Increase in bills receivable	(1,472)	—
(Decrease) increase in trade and other payables	(7,089)	13,301
Increase in bills payable	4,044	13,630
Net cash inflow (outflow) from operating activities	6,042	(65,564)

31. ACQUISITION OF A SUBSIDIARY

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	288
Trade and other payables	—	(6)
	—	282
Goodwill	—	1,218
	—	1,500
Satisfied by:		
Cash consideration paid	—	1,500

The subsidiary acquired during the year ended 31st December 2000 did not have any significant impact on the Group's cash flows, turnover and operating results.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Obligations under finance leases and a hire purchase contract HK\$'000	Bank and other borrowings (excluding overdrafts) HK\$'000
At 1st January 2000	174,117	600	169,603
Proceeds from issue of shares	91,652	—	—
Expenses incurred in connection with the issue of shares	(1,652)	—	—
Repurchase of shares	(3,222)	—	—
Net borrowings raised	—	—	16,780
Repayment	—	(600)	—
At 31st December 2000	260,895	—	186,383
Inception of a hire purchase obligation	—	310	—
Net borrowings raised	—	—	32,810
Repayment	—	(50)	—
At 31st December 2001	260,895	260	219,193

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a hire purchase arrangement in respect of an asset with a total capital value at the inception of the contract of HK\$310,000 (2000: Nil).

34. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution retirement benefits scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme, or switching to the MPF Scheme whereas all new employees joining the Group on or after 1st December 2000 are required to join the MPF Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

34. RETIREMENT BENEFITS SCHEME (Continued)

The retirement benefits cost of the ORSO Scheme and MPF Scheme charged to consolidated income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31st December 2001, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in the future years, was approximately HK\$184,000 (2000: HK\$154,000).

Under the MPF Scheme, no forfeited contributions are available to reduce the contributions payable in the future years.

35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by				
— an investee	14,992	6,140	14,992	6,140
— subsidiaries	—	—	236,627	209,867
	14,992	6,140	251,619	216,007
Bills discounted with recourse	127	740	—	—

36. PLEDGE OF ASSETS

At 31st December 2001, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- (a) investment properties and leasehold land and buildings with net book values of HK\$58,000,000 (2000: HK\$60,000,000) and HK\$62,226,000 (2000: HK\$64,583,000), respectively;
- (b) short term bank deposits of HK\$14,292,000 (2000: HK\$25,913,000) for short term bank borrowings;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

36. PLEDGE OF ASSETS (Continued)

- (c) trade receivables of certain subsidiaries of HK\$44,196,000 (2000: HK\$35,804,000); and
- (d) all assets of certain subsidiaries with aggregate value of HK\$176,431,000 (2000: HK\$124,748,000).

At 31st December 2000, the Company had pledged a bank deposit of HK\$20,764,000 to a bank to secure general banking facilities granted by the bank to the Company.

At 31st December 2001, the Company had not pledged any bank deposit.

37. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	1,131	4,272

The Company had no capital commitment at the balance sheet date.

38. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises	2,921	2,565

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

38. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as a lessee (Continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year	415	2,315
In the second to fifth year inclusive	282	4,865
	697	7,180

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are negotiated for an average term of two years and monthly rentals are fixed during the relevant lease periods.

The Group as a lessor

Property rental income earned during the year was HK\$1,615,000 (2000: HK\$1,617,000). The properties are expected to generate rental yields of 3% on an ongoing basis. The properties held have committed tenants for the next three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2001	2000
	HK\$'000	HK\$'000
Within one year	1,560	1,717
In the second to fifth year inclusive	3,016	438
	4,576	2,155

The Company had no operating lease arrangements at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

The Group entered into the following transactions during the year and has balances at the balance sheet date with related parties in which certain directors of the Company have beneficial interests:

(I) Transactions

Name of party	Interested director	Nature of transactions	2001	2000
			HK\$'000	HK\$'000
Varitronix International Limited and its subsidiaries	Chang Chu Cheng	Purchases of electronic products (note i)	5,537	7,771
		Sales of electronic products (note i)	1,831	3,648
		Rental expenses paid by the Group (note ii)	491	491
United Dynamic Limited	Yim Yuk Lun, Stanley	Rental expenses paid by the Group (note ii)	480	352
Hon Hai Precision Industry Co., Ltd. and its subsidiaries (note iii)	—	Purchases of electronic products (note i)	58,733	8,317
		Sales of electronic products (note i)	62,414	15,375

(II) Balances

	2001	2000
	HK\$'000	HK\$'000

Trade payables to:

Varitronix International Limited	2,362	4,885
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	8,679	3,430
	11,041	8,315

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

In addition, the Company had given guarantees outstanding at 31st December 2001 amounting to HK\$77,000,000 (2000: HK\$30,088,000) to certain banks in respect of banking facilities granted by the banks to RDL Electronic Company Limited ("RDL") which is 70% owned by the Group. The guarantees given by the Group were the only financial assistance given by RDL's shareholders to RDL.

As at 31st December 2001, Mr. Yim Yuk Lun, Stanley has given guarantees to a bank in respect of banking facilities granted by the bank to a subsidiary amounting to HK\$10,500,000 (2000: HK\$10,500,000).

Notes:

- i. The transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- ii. The rentals were charged with reference to market value.
- iii. The company is a substantial shareholder of the Company.

40. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company %	Principal activities
Bold Technology Limited	British Virgin Islands	Ordinary US\$10	60	Investment holding
東莞龍向電子製品有限公司 (Dongguan Dragon State Electronic Products Company Limited)	PRC	Registered capital HK\$5,000,000	75	Manufacturing of electronic products**
Dragon Branch Investment Limited	Hong Kong	Ordinary HK\$100	100	Inactive
		Non-voting deferred* HK\$1,000,000	100	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

40. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company %	Principal activities
Dragon Right Investment Limited	Hong Kong	Ordinary HK\$100	100	Inactive
		Non-voting deferred* HK\$1,000,000	100	
Dragon State Limited	Hong Kong	Ordinary HK\$500,000	100	Manufacture and trading of electronic products**
Dragon Trading Limited	British Virgin Islands	Ordinary US\$40,000	100	Investment holding
Dragon Well Enterprises Limited	Hong Kong	Ordinary HK\$1,000,000	100	Inactive
Dragon Will Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Inactive
Grant Square Investment Limited	Hong Kong	Ordinary HK\$10,000	100	Holding a motor vehicle
Green Classic Investment Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Golf Specialists Pacific Limited	Hong Kong	Ordinary HK\$4	100	Trading of golf products
Likeson Limited	British Virgin Islands	Ordinary US\$2	100	Investment holding
Manfield Venture Corporation	British Virgin Islands	Ordinary US\$1	100	Investment holding
RDL (China) Development Company Limited	Hong Kong	Ordinary HK\$2	70	Trading of electronic products
RDL Electronic Company Limited	Hong Kong	Ordinary HK\$5,000,000	70	Trading of electronic products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2001

40. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company %	Principal activities
S.A.S. (China) Development Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Trading of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Distribution of electronic products
S.A.S. Enterprises Company Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Distribution of fashion apparel, leather goods and accessories and electronic products***
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Property and investment holding
S.A.S. Telecommunications Company Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Seika Handbag & Leather Ware Singapore Pte. Limited	Republic of Singapore	Ordinary S\$100,000	100	Inactive
Sportline Limited	Hong Kong	Ordinary HK\$200,000	100	Trading of sports products
Sports World (Pacific) Limited	British Virgin Islands	Ordinary US\$100	100	Inactive
Yanson Pte. Limited	Republic of Singapore	Ordinary S\$25,000	100	Inactive

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.

** The business of the company ceased during the year and became inactive.

*** The company ceased its operations in the distribution of fashion apparel, leather goods and accessories during the year and engages in the distribution of electronic products.

With the exception of Dragon Trading Limited, S.A.S. Investment Company Limited, S.A.S. Telecommunications Company Limited and Bold Technology Limited, all the subsidiaries are indirectly held.