

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability on 15 June 2001 as an exempted company under the Companies Act (1981) of Bermuda pursuant to a group reorganization which involved a change of domicile of the Group from Hong Kong to Bermuda, details of which are set out in the prospectus of the Company dated 19 October 2001.

The change of domicile does not alter the listing status, management, business, financial position, underlying assets and liabilities of the Group. Hence, the group reorganization is accounted for using merger accounting as permitted by SSAP 27 "Accounting for Group Reconstructions". The consolidated accounts of the Group for the year ended 31 December 2001, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

No balance sheet of the Company as at 31 December 2000 is prepared as the Company was not yet incorporated on that date.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to these investee companies.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects where applicable.

— SSAP 9 (Revised)	Events after the balance sheet date
— SSAP 14 (Revised)	Leases
— SSAP 26	Segment reporting
— SSAP 28	Provisions, contingent liabilities and contingent assets
— SSAP 29	Intangible assets
— SSAP 30	Business combinations
— SSAP 31	Impairment of assets
— SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure but no adjustment. SSAP 9 (Revised) has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for accounting for finance and operating leases, and the required disclosures in respect thereof. It has made certain amendments to the previous accounting treatments, however these amendments have not had a material effect on the amounts previously recorded in the income statement and balance sheet, therefore no prior year adjustments have been required. The disclosure changes under the SSAP have resulted in changes to the information disclosed for rental commitments under operating leases, as further set out in note 25 to the financial statements.

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For the year ended 31 December 2001

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment, requiring management to determine whether their predominant risks or returns for the business are based on business segments or geographical segments and to choose one of these bases as the primary reporting format, with the other as the secondary reporting format. The principal impact of the SSAP is the inclusion of additional segment reporting disclosures, as set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the disclosure requirements. The principal impact of the SSAP on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of discounting is material.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements and has had no major impact on these financial statements.

SSAP 30 prescribes the treatment of business combinations, including the determination of the date of acquisition and the fair value of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill on future acquisitions in the non-current assets section of the balance sheet, and that such goodwill is amortised to the income statement over its estimated useful life of not exceeding twenty years from initial recognition. SSAP 30 has had no major impact on these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets, together with disclosure requirements. SSAP 31 has had no major impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements, and has had no major impact on these financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 18 to 46 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is a company, in which the Company holds a majority of the voting capital for the long term and exercises control over its financial or operating policies. Investments in subsidiaries are shown in the Company's balance sheet at cost less provision for diminution in value. As the investments are held for long term purposes, provision is only made where, in the opinion of the directors, there is a permanent diminution in value.

(d) Jointly controlled entities

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

Joint venture agreements which involve the establishment of separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of the post-acquisition results of the jointly controlled entities are included in the consolidated income statement. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for impairments in values other than those considered to be temporary in nature deemed necessary by the directors.

(e) Associated companies

An associated company is a company, not being a subsidiary, in which the Group holds an equity interest for the long term and exercises significant influence on its financial and operating policies.

The results of the associated companies are accounted for by the Group using the equity method of accounting. The Group's investments in associated companies are stated at its share of net assets of the associated companies.

(f) Capital reserve or goodwill on consolidation

According to the principal accounting policies of the Group, goodwill on acquisition of subsidiaries, jointly controlled entities or associated companies is amortized by equal annual installments over the respective joint venture periods. In accordance with SSAP 30, the amortization period is changed with the rebuttable presumption that the useful life of goodwill will not exceed twenty years from initial recognition in order to reflect the best estimate of the period during which future economic benefits are expected to flow to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Investments in securities

Held-to-maturity debt securities are stated at amortised costs less provision for impairment. Provision for impairment is made and charged to the income statement when it is not expected to recover the carrying value of the held-to-maturity debt securities.

Investment securities include the Group's equity interest in companies in which the Group has no significant influence on their financial and operating policies and which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated at cost less any provision for diminution in value. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(h) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following annual rates:

Office equipment	20%
Computer equipment	20%
Motor vehicle	20%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(i) Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment

At each balance sheet date an assessment is made whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

(k) Provisions and contingent liabilities

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

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

(l) Deferred tax

Deferred taxation is calculated at the current tax rate, using the liability method, in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

(m) Revenue recognition

Management fees are recognised when services are rendered.

Interest income is recognised on a time proportion basis.

Dividend income is recognised when the right of the Group or the Company as a shareholder to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The financial statements of subsidiaries and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Gains and losses arising on exchange are dealt with as a movement in the exchange fluctuation reserve.

(o) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(p) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(q) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

4. SEGMENTAL INFORMATION

In accordance with the Group's financial reporting, the Group has determined that the business segments are its primary reporting format and geographical segments are its secondary reporting format.

An analysis of the Group's turnover and operating loss by principal activity and geographical segment for the year ended 31 December is as follows:

	Turnover		Operating loss	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
By principal activity:				
Management fee from jointly controlled entities	1,952,449	2,055,311	(10,547,437)	(6,067,286)
Dividend income from investment securities	2,561,415	1,085,050	2,561,415	1,085,050
	<u>4,513,864</u>	<u>3,140,361</u>	<u>(7,986,022)</u>	<u>(4,982,236)</u>
Finance costs			(21,110)	(272,424)
Share of net (losses)/profits of jointly controlled entities			(3,953,743)	3,880,514
Share of net profits of associated companies			723,165	—
Gain on disposal of interest in a jointly controlled entity			—	17,553,880
(Loss)/profit before taxation			<u>(11,237,710)</u>	<u>16,179,734</u>
Total assets (unallocated)			<u>261,450,463</u>	<u>274,022,078</u>
Total liabilities (unallocated)			<u>28,552,664</u>	<u>28,241,597</u>

Given the nature of the Group's operations as investment holding, segment assets and segment liabilities are unallocated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

4. SEGMENTAL INFORMATION (Continued)

	Turnover	
	2001 HK\$	2000 HK\$
By geographical segment:		
Hong Kong	2,561,415	1,085,050
The People's Republic of China	1,952,449	2,055,311
	<u>4,513,864</u>	<u>3,140,361</u>

Given the nature of the Group's operations as investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss.

5. TURNOVER AND OTHER REVENUES

The amount of each significant category of revenue recognised during the year is as follows:

	2001 HK\$	2000 HK\$
Turnover		
Management fees from jointly controlled entities	1,952,449	2,055,311
Dividend income from investment securities	2,561,415	1,085,050
	<u>4,513,864</u>	<u>3,140,361</u>
Other revenues		
Arrangement fee income	—	875,000
Gain on disposal of investment securities	—	3,509,804
Interest on bank deposits	1,335,353	2,053,058
Interest on loan to an investee company	—	704,163
Investment income from held-to-maturity debt securities	63,003	441,943
Other income	510,666	147,378
	<u>1,909,022</u>	<u>7,731,346</u>
Total revenues	<u>6,422,886</u>	<u>10,871,707</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

6. OPERATING LOSS

	2001 HK\$	2000 HK\$
Operating loss is arrived at after charging:		
Amortisation of goodwill	365,977	202,065
Auditors' remuneration	189,000	369,040
Loss on disposal of investment securities	3,408,353	—
Operating lease payments on land and buildings	258,201	155,659
Retirement benefit cost (note 31)	7,001	1,201
Write-off of property, plant and equipment	5,535	311,099
	<u>5,535</u>	<u>311,099</u>

7. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on other borrowings and loans wholly repayable within five years	<u>21,110</u>	<u>272,424</u>

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Group during the year are as follows:

	2001 HK\$	2000 HK\$
Fees	—	100,000
Other emoluments:		
Salaries and benefits in kind	<u>510,000</u>	<u>225,000</u>
	<u>510,000</u>	<u>325,000</u>

The above amounts include directors' salaries of HK\$130,000 (2000: HK\$60,000) paid to independent non-executive directors of the Group.

Emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
HK\$Nil — HK\$1,000,000	<u>5</u>	<u>11</u>

During the year, no share options were granted to the directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

Details of the emoluments paid during the year to the five highest paid individuals of the Group whose emoluments have not been disclosed in the directors' emoluments stated above are as follows:

	2001 HK\$	2000 HK\$
Basic salaries and other benefits in kind	206,030	763,041
Number of individuals	<u>3</u>	<u>5</u>

The emoluments of each of the three individuals (2000: five individuals) are below HK\$1,000,000.

9. TAXATION

	2001 HK\$	2000 HK\$
Company and subsidiaries		
— Hong Kong profits tax	—	125,782
— Overseas income tax	226,714	—
Jointly controlled entities and associated companies		
— Share of taxation attributable to jointly controlled entities	1,054,052	436,898
— Share of taxation attributable to associated companies	<u>364,206</u>	<u>—</u>
	<u>1,644,972</u>	<u>562,680</u>

Hong Kong profits tax has not been provided as the individual companies of the Group do not have assessable profit arising in Hong Kong for the year.

Overseas income tax is provided for at the relevant tax rates.

Taxation of the jointly controlled entities represent corporation tax payable on income earned in the People's Republic of China.

Taxation of the associated companies is provided at the rate of 16% on the estimated assessable profit of individual companies of the Group for the year.

No deferred tax has been provided in the financial statements as there are no material timing differences.

10. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit for the year attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$87,804.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

11. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the following:

	2001 HK\$	2000 HK\$
<i>(Loss)/Earnings for the year</i>		
(Loss)/Profit attributable to shareholders	(12,882,682)	15,617,054
<i>Weighted average number of ordinary shares</i> — including effects of reduction of capital and subdivision of shares	<u>899,900,000</u>	<u>654,173,297</u>

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Office equipment HK\$	Computer equipment HK\$	Motor vehicle HK\$	Total HK\$
Cost				
At 1 January 2001	6,956	34,505	253,084	294,545
Additions	75,445	5,576	—	81,021
Disposals/Write-off	—	(6,150)	—	(6,150)
At 31 December 2001	<u>82,401</u>	<u>33,931</u>	<u>253,084</u>	<u>369,416</u>
Accumulated depreciation				
At 1 January 2001	4,371	5,263	—	9,634
Charge for the year	1,147	6,545	68,372	76,064
Disposals/Write-off	—	(615)	—	(615)
At 31 December 2001	<u>5,518</u>	<u>11,193</u>	<u>68,372</u>	<u>85,083</u>
Net book value				
At 31 December 2001	<u>76,883</u>	<u>22,738</u>	<u>184,712</u>	<u>284,333</u>
At 31 December 2000	<u>2,585</u>	<u>29,242</u>	<u>253,084</u>	<u>284,911</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

13. INTEREST IN SUBSIDIARIES

	Company
	2001
	HK\$
Unlisted shares, at cost	780
Amounts due from a subsidiary	89,989,220
Amounts due to a subsidiary	(204,230)
	<hr/>
	89,785,770
	<hr/> <hr/>

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal subsidiaries as at 31 December 2001 are as follows:

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
<i>Directly held by the Company:</i>				
Accufocus Investments Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	Investment holding
<i>Indirectly held by the Company:</i>				
Attentive Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
B2C E-Commerce Group Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Best Policy Management Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Chief Success Management Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Ever Honest Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Founder (Changzhou) Investment Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services

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For the year ended 31 December 2001

13. INTEREST IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
Founder Industrial Investment (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK\$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Money lending
Genius Choice Investments Limited	British Virgin Island	1 ordinary share of US\$1 each	100%	Investment holding
Home Growth Assets Limited	British Virgin Island	1 ordinary share of US\$1 each	100%	Investment holding
Rich Concept Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Rich Profits Int'l Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Sun Kai Yip (Shanghai) Industrial Investments Limited	People's Republic of China	US\$10,000,000	100%	Investment holding and provision of management and advisory services

The above summary lists only the principal subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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14. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2001	2000
	HK\$	HK\$
Share of net assets other than goodwill	59,088,678	64,433,708
Goodwill on acquisition of jointly controlled entities (less accumulated amortisation of HK\$1,999,334 ; 2000: HK\$1,633,357)	3,995,246	4,361,223
	63,083,924	68,794,931
Amounts due from jointly controlled entities	5,961,923	5,308,426
	69,045,847	74,103,357

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment. Dividends declared by the jointly controlled entities during the year amounted to HK\$337,235 (2000: HK\$199,408).

Particulars of the jointly controlled entities, which are joint venture companies incorporated and operating in the People's Republic of China are as follows:

Name	Group equity interest	Tenure (years)	Commencement date	Principal activities
Shanghai Sine Pharmaceutical Corporation Limited (note (a))	30%	30	7.8.1992	Manufacture and distribution of pharmaceutical products
Shanghai Evergood Textile Company Limited	35%	30	4.2.1993	Manufacture and distribution of textile products
Shanghai Yong An Dairy Company Limited	25%	30	16.4.1993	Production and distribution of dairy products
Shanghai Foodstuffs Factory Company Limited	35%	30	2.8.1993	Production and distribution of foodstuffs
Shanghai Tian An Bearing Company Limited (note (b))	30%	30	31.12.1993	Manufacture and distribution of bearing products

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14. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The tenure of the above companies can be extended by agreement with the joint venture partners after obtaining the necessary approval from the relevant government bodies.

Pursuant to the terms of the joint venture agreements for the above jointly controlled entities, the Group is entitled to receive its attributable share of the net assets upon liquidation of the jointly controlled entities.

Summary of financial position and results of major jointly controlled entities are shown as follows:

Year ended 31 December 2001 (figures in RMB million):

	Current assets	Current liabilities	Non- current assets	Turnover	Depreciation charges	Profit before taxation
Shanghai Sine Pharmaceutical Corporation Limited	300	(320)	145	288	(13)	5
Shanghai Tian An Bearing Company Limited	146	(85)	49	101	(5)	2
Shanghai Yong An Dairy Company Limited	<u>18</u>	<u>(17)</u>	<u>23</u>	<u>130</u>	<u>(3)</u>	<u>5</u>

Note:

	Cost of investment (figures in HK\$ million)	Directors' valuation* as at 31.12.2001 (figures in HK\$ million)	Net asset attributable to the Group as at 31.12.2001 (figures in HK\$ million)
(a)	30	29	29
(b)	28	24	24

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to jointly controlled entities.

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15 INTEREST IN ASSOCIATED COMPANIES

	Group	
	2001 HK\$	2000 HK\$
Share of net assets	6,114,661	5,350,000
Amounts due from associated companies	17,301,798	3,454,027
	<u>23,416,459</u>	<u>8,804,027</u>

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

Particulars of the associated companies as at 31 December 2001 are as follows:—

Name	Place of incorporation	Percentage of Registered capital indirectly held by the Company	Principal activities
Luck Point Investments Limited	British Virgin Islands	35%	Investment holding
Happy Online Group Limited	British Virgin Islands	33.75%	Investment holding
Market Choice Investments Limited (<i>note (a)</i>)	British Virgin Islands	20%	Investment holding
Victory Faith Investments Limited	Hong Kong	25%	Land development

The above summary lists only the principal associated companies of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

Note:

	Carrying value as at 31.12.2001 <i>(figures in HK\$ million)</i>	Directors' valuation* as at 31.12.2001 <i>(figures in HK\$ million)</i>	Net asset attributable to the Group as at 31.12.2001 <i>(figures in HK\$ million)</i>
(a)	14	14	14

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to an associated company.

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16. INVESTMENT SECURITIES

	Group	
	2001 HK\$	2000 HK\$
Unlisted equity securities, at cost	11,932,724	18,697,857
Provision for impairment	(6,786,880)	(7,394,719)
	<u>5,145,844</u>	<u>11,303,138</u>
Loans to an investee company	39,139,674	32,754,674
Listed equity securities, at cost		
Listed in Hong Kong	31,693,194	22,993,194
Listed overseas	—	766,986
	<u>31,693,194</u>	<u>23,760,180</u>
Total investment securities	<u><u>75,978,712</u></u>	<u><u>67,817,992</u></u>
Market value of listed equity securities (<i>note (a)</i>)	<u><u>35,251,670</u></u>	<u><u>25,956,565</u></u>

Loans to an investee company are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal unlisted equity securities as at 31 December 2001 are as follows:

Name of investee company	Group equity interest	Place of incorporation/ operation	Particulars of issued shares held	Principal activities	Carrying value as at 31.12.2001	Percentage of total assets of the Group
					<i>(figures in HK\$ million)</i>	
Dragon Fortune Limited	18%	British Virgin Islands	10,421 ordinary shares of US\$1 each	Investment holding	43	16%

Particulars of the principal listed equity securities as at 31 December 2001 are as follows:

Brief description of the business	Proportion of share capital owned	Carrying value as at 31.12.2001	Percentage of total assets of the Group
		<i>(figures in HK\$ million)</i>	
Wholesaling and distribution of consumer goods	5%	21	8%

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16. INVESTMENT SECURITIES (Continued)

Name of investee company	Group equity interest	Place of incorporation/ operation	Tenure (years)	Commencement date	Principal activities
Beijing Tian An Stevio Sugar Product Company Limited (<i>note (b)</i>)	35%	People's Republic of China	30	3.6.1993	Production and distribution of sugar

Note:

- (a) An investment, EVI Services Limited has undertaken a re-organisation in March 2001 and the Group has received 25,840,000 ordinary shares in a company newly listed on the Hong Kong Growth Enterprise Market in exchange for all of its shares held in EVI Services Limited above. The Group's then equity interest in the said listed company is 3.23%. The comparative figures of carrying value and market value of the investment were not reconform to the current year's presentation.
- (b) The tenure of this joint venture company can be extended by agreement with the joint venture partners after obtaining the necessary approval from the relevant government bodies. The management of this joint venture was taken over by the Chinese partner in 1997 and therefore the Group does not exercise any significant influence over the financial and operating policies of this joint venture.

17. TRADE AND OTHER RECEIVABLES

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Prepayments and deposits	530,031	389,480	185,759
Advance payments for potential investment	—	46,485,000	—
Receivable arising from disposal of interest in a jointly controlled entity (<i>note (a)</i>)	30,680,100	30,680,100	—
Amounts due from investee companies	46,485	700,182	—
Amount due from associated companies	42,716	—	—
Loan to a related company (<i>note (a)</i>)	—	2,119,716	—
Other loans (<i>note (a)</i>)	—	5,570,026	—
Others	30,300	4,680	—
	31,329,632	85,949,184	185,759

Note:

- (a) As at 31 December 2001, the ageing analysis of the major receivables was as follows:

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Within 3 months	—	35,549,816	—
3 to 6 months	—	—	—
6 to 12 months	—	2,679,700	—
Over 1 year	30,680,100	140,326	—
	30,680,100	38,369,842	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

18. AMOUNT DUE (TO)/FROM SINOX FUND MANAGEMENT LIMITED

The amount due (to)/from Sinox Fund Management Limited ("SINOX") is unsecured, interest free and has no fixed terms of repayment.

Mr. Lam Sai Ho, Anthony has an indirect equity interest in SINOX.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets (note 27(a)).

19. HELD-TO-MATURITY DEBT SECURITIES

	Group	
	2001 HK\$	2000 HK\$
Convertible redeemable note with maturity of 3 years	5,040,000	—
Equity linked note (unlisted) with maturity within 1 year	—	4,929,897
	<u>5,040,000</u>	<u>4,929,897</u>

20. TRADE AND OTHER PAYABLES

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Accruals	1,579,338	910,962	14,333
Amount due to a related company (note (b))	8,622,320	8,622,320	—
Other payables (note (a))	3,817,960	4,747,660	—
	<u>14,019,618</u>	<u>14,280,942</u>	<u>14,333</u>

Note:

(a) As at 31 December 2001, the ageing analysis of the other payables was as follows:

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Within 3 months	—	—	—
3 to 6 months	—	4,747,660	—
6 to 12 months	—	—	—
Over 1 year	3,817,960	—	—
	<u>3,817,960</u>	<u>4,747,660</u>	<u>—</u>

(b) The amount due to a related company is unsecured, interest free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

21. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>HK\$</i>
At incorporation, 15 June 2001	10,000,000	100,000
Increase during the year	<u>29,990,000,000</u>	<u>299,900,000</u>
At 31 December 2001	<u><u>30,000,000,000</u></u>	<u><u>300,000,000</u></u>

	Issued and fully paid ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>HK\$</i>
At incorporation, 15 June 2001	—	—
Increase during the year	<u>899,900,000</u>	<u>8,999,000</u>
At 31 December 2001	<u><u>899,900,000</u></u>	<u><u>8,999,000</u></u>

- (a) The Company was incorporated in Bermuda with limited liability on 15 June 2001 with an authorized capital of HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each.
- (b) In preparation for the listing of the Company's shares on the Stock Exchange, the following changes in authorized and issued share capital of the Company took place:
- (i) On 9 July 2001, 10,000,000 ordinary shares were issued, nil paid, at par. On 12 December 2001, the 10,000,000 ordinary shares were credited as fully paid to the shareholders of GR Investment Holdings Limited ("GR Holdings") as explained below.
 - (ii) On 10 December 2001, the authorized share capital of the Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of an additional 29,990,000,000 shares of HK\$0.01 each.
 - (iii) On 12 December 2001, as consideration for the acquisition by the Company of the entire issue capital of GR Holdings, an aggregate of 889,900,000 shares were issued, credited as fully paid to the shareholders of GR Holdings.
- (c) The share capital presented in the consolidated balance sheet as at 31 December 2000 represents the share capital of the Company which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of presentation as set out in note 1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

21. SHARE CAPITAL *(Continued)*

- (d) On 10 December 2001, the Company adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company.

The exercise price is set at not less than the highest of:

- (i) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date;
- (ii) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the 5 business days immediately preceding the offer date; and
- (iii) the nominal value of a share.

For the purpose of determining the exercise price where the Company has been listed for less than 5 business days preceding the offer date, the new issue price of the shares shall be used as the closing price of the shares for any business day falling within the period before listing of the shares on the Stock Exchange.

During the year, no option was granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

22. RESERVES

The Group

	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
1 January 2001	166,327,220	468,163	—	(4,194,214)	(6,810,688)	155,790,481
Arising during the year	—	—	80,991,000	—	—	80,991,000
(Loss) for the year	—	—	—	—	(12,882,682)	(12,882,682)
31 December 2001	<u>166,327,220</u>	<u>468,163</u>	<u>80,991,000</u>	<u>(4,194,214)</u>	<u>(19,693,370)</u>	<u>223,898,799</u>
Retained by:						
Company and subsidiaries	166,327,220	468,163	80,991,000	(4,194,214)	(2,117,383)	241,474,786
Jointly controlled entities	—	—	—	—	(17,934,946)	(17,934,946)
Associated companies	—	—	—	—	358,959	358,959
	<u>166,327,220</u>	<u>468,163</u>	<u>80,991,000</u>	<u>(4,194,214)</u>	<u>(19,693,370)</u>	<u>223,898,799</u>

The Company

Arising during the year	—	—	80,991,000	—	—	80,991,000
(Loss) for the year	—	—	—	—	(87,804)	(87,804)
31 December 2001	<u>—</u>	<u>—</u>	<u>80,991,000</u>	<u>—</u>	<u>(87,804)</u>	<u>80,903,196</u>

As fully explained in the prospectus of the Company dated 19 October 2001, one share of GR Holdings at HK\$0.1 each was exchanged into one share of the Company at HK\$0.01 each, resulting in the difference of HK\$80,991,000 be credited into contributed surplus as required in the Companies Act in Bermuda. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, its issued share capital and its share premium.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of (loss)/profit before taxation to net cash inflow/(outflow) from operating activities

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
(Loss)/Profit before taxation	(11,237,710)	16,179,734
Amortisation of goodwill	365,977	202,065
Depreciation	76,064	90,539
Write-off of property, plant and equipment	5,535	311,099
Loss/(gain) on disposal of investment securities	3,408,353	(3,509,804)
Gain on disposal of a jointly controlled entity	—	(17,553,880)
Dividend income from investment securities	(2,561,415)	(1,085,050)
Investment income from held-to-maturity debt securities	(63,003)	(441,943)
Interest income	(1,335,353)	(2,757,221)
Interest expenses	21,110	272,424
Share of net losses (profits) of jointly controlled entities	3,953,743	(3,880,514)
Share of net profits of associated companies	(723,165)	—
Decrease/(Increase) in trade and other receivables	54,619,552	(51,013,826)
Decrease/(Increase) in amount due from SINOX	391,642	(391,642)
Increase in amounts due from jointly controlled entities and associated companies	(14,501,268)	(3,325,074)
(Decrease)/Increase in trade and other payables	(261,324)	65,736
Decrease in amounts due to investee companies	(444,820)	(68,574)
Increase/(Decrease) in amount due to SINOX	1,017,211	(989,240)
Net cash inflow/(outflow) from operating activities	<u>32,731,129</u>	<u>(67,895,171)</u>

24. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on the net assets of HK\$232,897,799 (2000: HK\$245,780,481) and the 899,900,000 (2000: 899,900,000) shares in issue as at 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had minimum lease payment under non-cancellable operating leases which fall due as follows:

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Within one year	72,803	87,363	—
In the second to fifth years	—	72,803	—
	<u>72,803</u>	<u>160,166</u>	<u>—</u>

26. CAPITAL COMMITMENTS

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Capital commitments contracted but not provided for in the financial statements	—	2,155,000	—
	<u>—</u>	<u>2,155,000</u>	<u>—</u>

27. RELATED PARTY TRANSACTIONS

	Group		Company
	2001 HK\$	2000 HK\$	2001 HK\$
Investment management fees paid to SINOX (note (a))	3,660,469	3,417,572	—
Operating lease rental paid to Key Post Company Limited	—	188,100	—
Loan to Siri Pattana Rice Co., Ltd	—	2,119,716	—
Loan interest expenses to Ng Fung Always Limited	—	202,983	—
	<u>—</u>	<u>202,983</u>	<u>—</u>

Note:

- (a) Management fees paid to SINOX for administrative and investment management services were calculated at 1.5% (2000: 1.5%) per annum on the net asset value of the Group calculated on a quarterly basis.

Mr. Lam Sai Ho, Anthony has an indirect equity interest in SINOX.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

28. CONNECTED TRANSACTION

As Mr. Lam Sai Ho Anthony, the Chairman of the Company, has an indirect interest of approximately 66.67 per cent in the Investment Manager, Sinox Fund Management Limited, the Investment Manager is regarded as a connected person of the Company and, accordingly, the existing investment management agreement constitutes a connected transaction for the Group under the Listing Rules. As the total annualised consideration for the investment management agreement is approximately HK\$3.6 million during the duration of the investment management agreement, the investment management agreement is subject to disclosure requirement pursuant to Rule 14.25(1) of the Listing Rules.

As the abovementioned connected transaction has been conducted on normal commercial terms, in the ordinary course of business of the Group and the annualised consideration paid by the Group to the Investment Manager in each financial year under the previous investment agreements constituted less than three percent of the net tangible assets of the Group as at the beginning of such financial year since 1992, it is expected that such transaction will continue in the future and will constitute ongoing connected transactions for the Group under the Listing Rules. As such, the Company had applied for a waiver from the Listing Division of the Stock Exchange that the ongoing connected transactions arising from renewal of the investment management agreement need only be disclosed in the next published annual report and no press notice would be required. The Listing Division of the Stock Exchange has granted such waiver to the Company on 24 September 2001.

29. PLEDGE OF ASSETS

The Group has pledged its fixed deposits of HK\$1,027,383 (Year 2000: HK\$12,394,094) with a bank to secure a bank guarantee of HK\$1,000,000 given to a third party on behalf of an indirect subsidiary of an associated company of the Group. During the year, there were no expenses or liabilities incurred to discharge the guarantee.

30. POST BALANCE SHEET EVENT

There is no material post balance sheet event subsequent to the balance sheet date.

31. RETIREMENT BENEFIT COSTS

The Group has a defined contribution retirement scheme which is available to all employees excluding directors. Contributions to the scheme by the Group and employees are calculated as a percentage of employee's basic salaries.

The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the fund.

32. COMPARATIVE FIGURES

As explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the income statement, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 18 to 46 were approved by the board of directors on 18 April 2002.