

Notes to the Financial Statements

For the year ended December 31, 2001

1. GENERAL

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

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 46 to the financial statements.

In the previous period, the Company changed its financial year end date from August 31 to December 31 to conform with the financial year end date of one of its major shareholders. The financial statements for the prior period covered the 16 months period ended December 31, 2000. The corresponding amounts shown for the consolidated income statement, consolidated statement of recognised gains and losses, consolidated cash flows and related notes covered the 16 months period ended December 31, 2000, and may not be comparable with amounts shown for the current period.

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 period have been restated in order to achieve a consistent presentation.

The adoption of the new and revised standards does not have any significant impact on the financial statements for the current or prior periods.

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 investments in securities, and 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 December 31. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill 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, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

In the previous period, goodwill is written off to reserves immediately on acquisition or, where appropriate, capitalised and amortised on a straight line basis over its estimated useful life. Upon the adoption of SSAP 30 "Business Combination", the Group has elected not to restate goodwill written off against reserve and the goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time the goodwill is determined to be impaired.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

In the previous period, negative goodwill is credited to reserves on acquisition. Upon the adoption of SSAP 30 "Business Combination", the Group has elected not to restate negative goodwill credited to reserves and the negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Investments in subsidiaries

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

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised, less any identified impairment loss.

Revenue recognition

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

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

Disposals of properties are recognised on the execution of a legally binding and irrecoverable sales agreement.

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 shareholders' rights to receive payment have been established.

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment loss.

The gain or loss arising from 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.

Depreciation is provided so as to write off the cost of property, plant and equipment other than construction in progress using the straight-line method over their estimated useful lives which are as follows:

Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	5 years

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

Construction in progress

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transfer to other categories of property, plant and equipment.

Investment in an option

Investment in an option is stated at cost less impairment loss.

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 under that other SSAP.

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 value based on professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of the 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 on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is 20 years or less.

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability to the hirer is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Investments in securities

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

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

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Taxation

The charge for taxation is based on the results for the period 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 under 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.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Foreign currencies

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

On consolidation, the financial statements of overseas operations maintained in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Notes to the Financial Statements

For the year ended December 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Retirement benefits scheme**

All of the Group's employees have been enrolled in a Mandatory Provident Fund Scheme. The contributions payable in respect of the current period to the scheme are charged as an expense as they fall due.

4. TURNOVER

1.1.2001 to 12.31.2001 HK\$	9.1.1999 to 12.31.2000 HK\$
--------------------------------------	--------------------------------------

Turnover of the Group is analysed as follows:

Continuing operations:		
Property leasing	670	1,992
Discontinued operations:		
Retailing business	–	105,393
	<hr/> 670	<hr/> 107,385

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

For management purposes, the Group is currently organised into two operating divisions – property leasing and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented as below.

Notes to the Financial Statements

For the year ended December 31, 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Year ended December 31, 2001:

	Property leasing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	670	–	670
RESULT			
Segment result	<u>(5,396)</u>	<u>(47,550)</u>	(52,946)
Finance cost			(1,710)
Interest income			4,030
Impairment loss of associates			(41,555)
Share of results of associates			(34,433)
Unallocated corporate expenses			<u>(13,685)</u>
Loss before taxation			(140,299)
Taxation			<u>(2,118)</u>
Loss after tax			<u>(142,417)</u>

Period from September 1, 1999 to December 31, 2000

	Property leasing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	1,992	–	105,393	107,385
RESULT				
Segment result	<u>(13,728)</u>	<u>(34,218)</u>	<u>(14,875)</u>	(62,821)
Finance cost				(9,631)
Interest income				9,782
Share of results of associates				(1,082)
Unallocated corporate expenses				<u>(33,261)</u>
Loss before taxation				(97,013)
Taxation				<u>(2,325)</u>
Loss after tax				<u>(99,338)</u>

Notes to the Financial Statements

For the year ended December 31, 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet

	Property leasing HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
At December 31, 2001:			
ASSETS			
Segment assets	28,190	85,150	113,340
Investment in associates			119,142
Unallocated corporate assets			169,077
Consolidated total assets			<u>401,559</u>
LIABILITIES			
Segment liabilities	(18,040)	(764)	(18,804)
Unallocated corporate liabilities			(16,977)
Consolidated total liabilities			<u>(35,781)</u>
OTHER INFORMATION			
Capital additions		1,188	1,188
Depreciation and amortisation		7,204	7,204
Impairment loss of investment securities		47,965	47,965
Impairment loss of associates			<u>41,555</u>
	Property leasing HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
At December 31, 2000:			
ASSETS			
Segment assets	62,600	199,297	261,897
Investment in associates			168,102
Unallocated corporate assets			130,387
Consolidated total assets			<u>560,386</u>
LIABILITIES			
Segment liabilities	(32,375)	–	(32,375)
Unallocated corporate liabilities			(9,622)
Consolidated total liabilities			<u>(41,997)</u>
OTHER INFORMATION			
Capital additions		19,894	19,894
Depreciation and amortisation		7,582	7,582
Impairment loss of investment securities		38,965	<u>38,965</u>

Notes to the Financial Statements

For the year ended December 31, 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The analysis of the Group's turnover by geographical market is as follows:

	Turnover by geographical market		Contribution to loss from operations	
	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
The People's Republic of China ("PRC")	–	20,165	(28,012)	(52,913)
Hong Kong	670	87,220	(49,195)	(37,083)
Korea	–	–	(65,412)	(7,168)
	670	107,385	(142,619)	(97,164)
Interest (net)			2,320	151
Unallocated corporate expenses			–	–
Loss before taxation			(140,299)	(97,013)

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	12.31.2001 HK\$'000	12.31.2000 HK\$'000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
PRC	159,461	287,190	1,162	17,546
Hong Kong	215,036	212,739	26	2,348
Korea	27,062	60,457	–	–
	401,559	560,386	1,188	19,894

Notes to the Financial Statements

For the year ended December 31, 2001

6. OTHER REVENUE

1.1.2001	9.1.1999
to	to
12.31.2001	12.31.2000
HK\$'000	HK\$'000

Other revenue includes the following income:

Bank interest income	2,624	5,109
Other interest income	1,406	4,673
Exchange gain	88	1,420
Gain on disposal of other investments	6,771	–

7. LOSS ARISING FROM INVESTMENT PROPERTIES

1.1.2001	9.1.1999
to	to
12.31.2001	12.31.2000
HK\$'000	HK\$'000

Deficit arising on revaluation	6,110	8,188
(Gain)/loss on disposal of investment properties and investment properties holding company	(1,813)	7,836
	4,297	16,024

8. OTHER OPERATING EXPENSES

1.1.2001	9.1.1999
to	to
12.31.2001	12.31.2000
HK\$'000	HK\$'000

Other operating expenses comprise:

Amortisation of premium on acquisition of associates	6,662	3,529
Amortisation of goodwill	112	169
Impairment loss of club debenture	–	750
Loss on disposal of club debenture	–	350
Provision for impairment loss/surrender of licence rights	–	4,644
Severance payment	–	739
	6,774	10,181

Notes to the Financial Statements

For the year ended December 31, 2001

9. LOSS FROM OPERATIONS

	1.1.2001	9.1.1999
	to	to
	12.31.2001	12.31.2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	400	875
Depreciation and amortisation:		
Owned assets	418	3,035
Asset held under a hire purchase contract	12	16
Licence rights	–	833
Loss on disposal of property, plant and equipment	–	687
Minimum lease payment under operating lease in respect of rented premises	1,325	35,534
Retirement benefits scheme contributions	95	37
Staff costs (including Directors' remuneration)	9,751	15,838
	9,846	15,875
and after crediting:		
Operating lease rental income in respect of investment properties, net of outgoings of HK\$102,000 (9.1.1999 to 12.31.2000: HK\$42,000)	568	3,662

Notes to the Financial Statements

For the year ended December 31, 2001

10. FINANCE COSTS

	1.1.2001 to 12.31.2001 <i>HK\$'000</i>	9.1.1999 to 12.31.2000 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Bank borrowings	–	1,571
Loan from former ultimate holding company	–	1,832
Hire purchase charges	1	4
Other borrowings	–	497
	1	3,904
Interest on bank borrowings not wholly repayable within five years	1,709	5,727
	1,710	9,631

11. DISCONTINUED OPERATIONS

During the 16 months period ended December 31, 2000, the Group discontinued its retailing business in Hong Kong and the People's Republic of China ("PRC") through disposals of the relevant subsidiaries in order to refocus the business of the Group to e-commerce and other investment opportunities. The two effective dates of disposal of the retailing business were May 15, 2000 and August 24, 2000.

A gain of approximately HK\$417,000 arose on the disposal of the relevant subsidiaries, being the proceeds of disposal less the carrying amounts of the subsidiaries' net assets, attributable translation reserve and goodwill (Note 37).

Notes to the Financial Statements

For the year ended December 31, 2001

11. DISCONTINUED OPERATIONS (Continued)

The consolidated income statement for the 16 months period ended December 31, 2000 includes the results of such discontinued operations for the period from September 1, 1999 to the date of discontinuance based on unaudited management accounts as follows:

	9.1.1999 to date of discontinuance HK\$'000
Turnover	105,393
Cost of sales and direct operating expenses	(50,081)
	55,312
Other revenues	2,718
Administrative and selling expenses	(70,282)
Other expenses	(2,623)
Finance costs	(2,068)
Loss for the period	(16,943)

During the 16 months period ended December 31, 2000, the Group had also ceased the operation of battery cells manufacturing and licencing during prior period. There was no turnover attributable to such business since its inception and the loss attributable to such business for the prior period was HK\$4,644,000 which represented the provision for impairment loss of related licence rights.

Notes to the Financial Statements

For the year ended December 31, 2001

12. DIRECTORS' REMUNERATION

	1.1.2001 to 12.31.2001 <i>HK\$'000</i>	9.1.1999 to 12.31.2000 <i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Independent non-executive	187	159
	187	159
Other emoluments paid to executive directors:		
Salaries and other benefits	4,560	6,874
Contractual payments for loss of office of former directors	–	1,300
Retirement benefits scheme contributions	253	–
	5,000	8,333

Emoluments of the directors were within the following bands:

	1.1.2001 to 12.31.2001 Number of directors	9.1.1999 to 12.31.2000 Number of directors
HK\$ nil to HK\$1,000,000	5	9
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	–	3
HK\$2,500,001 to HK\$3,000,000	1	–

Notes to the Financial Statements

For the year ended December 31, 2001

13. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group included three executive directors (9.1.1999 to 12.31.2000: five executive directors), whose emoluments are included in the amounts disclosed in note 12. The emoluments of the remaining two individuals for the year ended December 31, 2001 are as follows:

	1.1.2001 to 12.31.2001 HK\$'000
Salaries and other benefits	1,367
Retirement benefits scheme contributions	50
	1,417

Their emoluments are within the following band:

	1.1.2001 to 12.31.2001 Number of employees
HK\$ nil to HK\$1,000,000	2

14. TAXATION

The taxation charge for the year represents the share of taxation other than in Hong Kong attributable to associates calculated at rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both periods.

Details of potential deferred taxation are set out in note 34.

15. NET LOSS FOR THE YEAR/PERIOD

Of the Group's net loss for the year of approximately HK\$141,890,000 (9.1.1999 to 12.31.2000: HK\$98,188,000), a loss of approximately HK\$138,772,000 (9.1.1999 to 12.31.2000: HK\$71,545,000) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended December 31, 2001

16. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$141,890,000 (9.1.1999 to 12.31.2000:HK\$98,188,000) and on the weighted average number of 3,632,336,252 (9.1.1999 to 12.31.2000:2,411,105,266) ordinary shares in issue during the year/period.

No diluted loss per share has been calculated for the year/period as the exercise of the share options, and the convertible note for the period from September 1, 1999 to December 31, 2001, would result in a decrease in the loss per share.

17. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
AT VALUATION	
At January 1, 2001	62,600
Disposals	(28,300)
Deficit on revaluation	(6,110)
At December 31, 2001	28,190

At December 31, 2001, the Group's investment properties were revalued on an open market value basis by CB Richard Ellis Limited, a firm of independent valuers, at HK\$28,190,000. The net deficit arising on valuation of HK\$6,110,000 has been charged to the income statement.

Investment properties with a carrying value of HK\$20,620,000 (12.31.2000:HK\$2,050,000) were rented out under operating leases at the balance sheet date.

The Group's investment properties are all situated in Hong Kong. The investment properties are held under the following lease terms:

	2001 HK\$'000	2000 HK\$'000
Long leases	23,480	52,050
Medium-term leases	4,710	10,550
	28,190	62,600

Notes to the Financial Statements

For the year ended December 31, 2001

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At January 1, 2001	478	929	17,545	18,952
Additions	–	1,188	–	1,188
Reclassification	–	17,545	(17,545)	–
Decrease on reclassification of a subsidiary to an associate	–	(18,707)	–	(18,707)
At December 31, 2001	478	955	–	1,433
DEPRECIATION				
At January 1, 2001	86	165	–	251
Provided for the year	159	271	–	430
Decrease on reclassification of a subsidiary to an associate	–	(85)	–	(85)
At December 31, 2001	245	351	–	596
NET BOOK VALUES				
At December 31, 2001	233	604	–	837
At December 31, 2000	392	764	17,545	18,701

Notes to the Financial Statements

For the year ended December 31, 2001

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2000, the net book value of furniture, fixtures and equipment includes an amount of HK\$32,000 in respect of asset held under a hire purchase contract.

	Leasehold improvements
	<i>HK\$'000</i>
THE COMPANY	
COST	
At January 1, 2001 and December 31, 2001	478
DEPRECIATION	
At January 1, 2001	86
Provided for the year	159
At December 31, 2001	245
NET BOOK VALUE	
At December 31, 2001	233
At December 31, 2000	392

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	212,902	212,902
Less: Impairment losses recognised	(129,336)	(46,869)
	83,566	166,033
Amounts due from subsidiaries	559,649	444,349
Provision for amounts due from subsidiaries	(381,607)	(361,111)
	178,042	83,238
	261,608	249,271

Details of the principal subsidiaries of the Company as at December 31, 2001 are set out in note 46.

The impairment losses are estimated with reference to the recoverable amounts of the underlying assets and liabilities of the subsidiaries.

Notes to the Financial Statements

For the year ended December 31, 2001

20. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
COST	
At September 1, 1999	–
Additions during the period	3,371
At January 1, 2001	3,371
Decrease on reclassification of a subsidiary to an associate	(3,371)
At December 31, 2001	–
AMORTISATION	
At September 1, 1999	–
Provided during the period	169
At January 1, 2001	169
Provided for the year	112
Decrease on reclassification of a subsidiary to an associate	(281)
At December 31, 2001	–
NET BOOK VALUE	
At December 31, 2001	–
At December 31, 2000	3,202

The goodwill represents principally premium arising on acquisition of subsidiaries and is amortised over a period of ten years.

21. INVESTMENT IN AN OPTION

In April, 2001, Deco Investment Limited, a wholly owned subsidiary of the Company, acquired the entire issued share capital of Citystar Venture Limited ("Citystar") at a consideration of HK\$42,000,000. Citystar holds the entire issue capital of Beijing Starhood Digital Technology Co., Ltd. The only major asset of Citystar and its subsidiary ("Citystar Group") is the right to acquire an option ("Option") in the PRC for HK\$7,000,000 which enables the option holder to purchase 49% equity interest in a company which is a digital network provider and data center operator in Beijing. As the only major asset of Citystar Group is the Option held, the total consideration paid of HK\$49,000,000 in connection with the acquisition of the Option is classified as "Investment in an option" in the balance sheet.

Notes to the Financial Statements

For the year ended December 31, 2001

22. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	92,209	107,205
Premium on acquisition of associates	33,807	60,897
Provision for impairment loss of associates	(6,874)	–
	119,142	168,102

The movement of the premium on acquisition of associates are as follows:

	HK\$'000
At September 1, 1999	–
Acquisition of associates	64,426
Amortisation during the period	(3,529)
At January 1, 2001	60,897
Increase on reclassification of a subsidiary to an associate	3,090
Amortisation during the year	(6,662)
Provision for impairment loss of associates	(23,518)
At December 31, 2001	33,807

The premium on acquisition of associates is amortised over a period of 10 years.

In November 2001, the Group entered into an agreement for the disposal of the Group's entire interest in IBR Inc. ("IBR") (see note 45(a)). The carrying value of IBR, including premium on acquisition and the balance in the translation reserve relating to IBR, is written down to its recoverable amount which represents the net realisable value of IBR.

Details of the Group's associates as at December 31, 2001 are set out in note 46.

Notes to the Financial Statements

For the year ended December 31, 2001

22. INTERESTS IN ASSOCIATES (Continued)

The following information relates to the Group's significant associates, namely IBR, Xin Hua Control Engineering Co. Ltd. ("Xin Hua") and EgoChina Holdings Limited ("EgoChina Holdings") for the year ended December 31, 2001:

	IBR		Xin Hua		EgoChina Holdings	
	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
Operating results:						
Turnover	11,637	2,729	242,618	226,970	-	-
Profit (loss) for the year/period	(108,438)	(33,323)	27,443	25,467	(48,740)	-
Profit (loss) for the year/period attributable to the Group	(24,290)	(5,493)	11,252	1,415	(25,064)	-
Financial position:						
Property, plant and equipment	17,455	159,477	28,877	27,698	-	-
Investments	15	15	472	2,434	-	-
Other assets	4,922	2,901	2,663	2,477	-	-
Current assets	149,024	126,064	284,247	228,352	25,482	-
Current liabilities	(17,188)	(16,035)	(195,444)	(150,657)	(11,147)	-
Non-current liabilities	(2,727)	(2,524)	-	-	(3,343)	-
Net assets	151,501	269,898	120,815	110,304	10,992	-
Net assets attributable to the Group	33,936	60,457	49,534	45,225	5,663	-

Notes to the Financial Statements

For the year ended December 31, 2001

23. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Investment securities, carried at cost less impairment:				
Unlisted shares	20,300	52,965	–	38,965
Club debentures	1,050	1,050	–	–
	21,350	54,015	–	38,965
Other investments, carried at market value:				
Convertible bonds listed overseas	–	7,722	–	7,722
	21,350	61,737	–	46,687
Carrying amount analysed for reporting purposes as:				
Non-current	21,350	61,737	–	46,687

During the year, the Group reviewed the carrying amounts of the investments in unlisted securities and identified that the estimated discounted net future cash flows from investees (the "Recoverable Amounts") are less than the carrying amounts. Accordingly, the carrying amounts of investees are reduced to their respective Recoverable Amounts which are estimated using market borrowing rates.

The convertible bonds are issued by a subsidiary of a shareholder of the Company.

Notes to the Financial Statements

For the year ended December 31, 2001

24. DEPOSITS FOR INVESTMENT PROJECTS

THE GROUP

The balance as at December 31, 2000 represented deposits paid for investment projects. An amount of HK\$47,169,000 is related to two investment projects which have been completed during the year.

The amount also included an amount of HK\$50,117,000 representing deposit paid to an associate of a shareholder of the Company in respect of investment in a potential project. The deposit was interest bearing at Hong Kong prime interest rate and interest income from the deposit for the 16 months period ended December 31, 2000 and for the year ended December 31, 2001 amounted to HK\$3,310,000 and HK\$973,000 respectively. The deposit was fully refunded to the Company after the termination of the potential investment project during the year.

25. OTHER DEPOSIT

THE GROUP

Pursuant to a Call Option Agreement entered into between Egochina Holdings, a former subsidiary of the Company and the shareholders of Beijing Egochina eCommerce Co., Ltd. ("Beijing Egochina"), which is a shareholder of Egochina.com consultancy Services Co., Ltd., a subsidiary of Egochina Holdings Limited during the period ended December 31, 2000, the shareholders of Beijing Egochina granted a call option to Egochina Holdings Limited or its nominee to purchase all their interest in Beijing Egochina at a consideration of US\$2,000,000. Egochina Holdings ceased to be a subsidiary and was reclassified to an associate during the year.

26. DEBTORS AND CREDITORS

THE GROUP

The Group did not have any trade debtors and creditors as at December 31, 2001 and December 31, 2000 as the Group is mainly engaged in the business of investment holding and property holding during both periods.

27. LOAN TO AN ASSOCIATE

The amount is secured by certain shares of the Company held by another shareholder of the associate and is, interest bearing at Hong Kong prime interest rate. The amount was originally repayable in March 27, 2002 and the Company has agreed with the associate to extend the repayment term so that the loan is now repayable on demand.

Notes to the Financial Statements

For the year ended December 31, 2001

28. AMOUNTS DUE FROM A MINORITY SHAREHOLDER OF A FORMER SUBSIDIARY, AMOUNT DUE TO A SHAREHOLDER, AMOUNT DUE FROM/TO ASSOCIATE AND LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**THE GROUP AND THE COMPANY**

The amounts are unsecured, interest free and repayable on demand.

29. SECURED BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank borrowings comprise the following:		
Bank loans	18,040	32,375
The bank borrowings are repayable as follows:		
Within one year	1,426	1,103
More than one year, but not exceeding two years	1,481	1,103
More than two years, but not exceeding five years	4,640	3,308
More than five years	10,493	26,861
	18,040	32,375
Less: Amount due within one year shown under current liabilities	(1,426)	(1,103)
	16,614	31,272

The bank borrowings are secured by the pledge of assets as detailed in note 40.

30. OBLIGATIONS UNDER A HIRE PURCHASE CONTRACT

The obligations under a hire purchase contract as at December 31, 2000 were due within the year and were fully settled during the year.

Notes to the Financial Statements

For the year ended December 31, 2001

31. SHARE CAPITAL

	Number of shares		Share capital	
	1.1.2001 to 12.31.2001	9.1.1999 to 12.31.2000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning of year/period	6,000,000,000	3,000,000,000	600,000	300,000
Increase on April 20, 2000	–	3,000,000,000	–	300,000
At end of year/period	6,000,000,000	6,000,000,000	600,000	600,000
Issued and fully paid:				
At beginning of year/period	3,634,295,567	1,044,636,470	363,430	104,464
Issued in consideration for the acquisition of investment properties (note a)	–	90,454,544	–	9,046
Issued to Fantasy Resources Limited (note b)	–	1,100,000,000	–	110,000
Placement to third parties (note b)	–	300,000,000	–	30,000
Issued to Atlantic Cay International Limited (note c)	–	500,000,000	–	50,000
Issued to ML IBK Position, Inc. (note c)	–	50,000,000	–	5,000
Conversion of convertible note (note d)	–	33,333,333	–	3,333
Issued in consideration for the acquisition of associates and investments (note e and f)	–	516,951,220	–	51,695
Shares repurchased and cancelled (note g)	(2,050,000)	(1,080,000)	(205)	(108)
At end of year/period	3,632,245,567	3,634,295,567	363,225	363,430

By a resolution passed at the special general meeting of the Company held on April 20, 2000, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$600,000,000 by the creation of an additional 3,000,000,000 ordinary shares of HK\$0.10 each. Such shares rank pari passu with the then existing issued and unissued shares in all respects.

Notes to the Financial Statements

For the year ended December 31, 2001

31. SHARE CAPITAL (Continued)

During the year ended December 31, 2001, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2001	2,050,000	0.209	0.194	417,380

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Details of movements of the issued share capital during the period from September 1, 1999 to December 31, 2000 were as follows:

- (a) On August 3, 1999, the Group entered into four conditional sale and purchase agreements for the acquisition of leasehold properties for an aggregate consideration of HK\$16,650,000 which was to be satisfied by the allotment and issue of 151,363,634 shares of HK\$0.10 each in the capital of the Company at an issue price of HK\$0.11 per share.

Upon the completion of the acquisition of the properties in Hong Kong on August 20, 1999, the Company allotted and issued 50,000,000 and 10,909,090 shares of HK\$0.10 each in the Company to Kinlap International Investment Limited and Mr. Liang Wentao respectively, at a price of HK\$0.11 per share, credited as fully paid.

During the period, the Company allotted and issued 9,545,454 shares and 80,909,090 shares of HK\$0.10 each in the Company to Kinlap International Investment Limited and Upper Like Investments Limited, at a price of HK\$0.11 per share, credited as fully paid, upon the completion of the purchase of the other properties in Macau and the PRC respectively.

- (b) On January 5, 2000, the Company and Fantasy Resources Limited ("Fantasy"), a wholly-owned subsidiary of Silver Grant International Industries Limited, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and Fantasy agreed to subscribe for 1,100,000,000 shares of HK\$0.10 each for cash at par.

On the same date, the Company entered into a conditional placing agreement to place 300,000,000 shares of HK\$0.10 each for cash at par to independent third parties.

Notes to the Financial Statements

For the year ended December 31, 2001

31. SHARE CAPITAL (Continued)

- (c) On March 20, 2000, the Company entered into a conditional subscription agreement pursuant to which Atlantic Cay International Limited ("Atlantic Cay"), which is owned by several Capital Venture funds managed by E.M. Warburg, Pincus & Co. LLC and ML IBK Position, Inc., a wholly-owned subsidiary of Merrill Lynch & Co., have agreed to subscribe for 500,000,000 and 50,000,000 new shares of HK\$0.10 each of the Company respectively for cash at HK\$0.40 per share.
- (d) On December 23, 1999, a sale and purchase agreement was entered into between the Group and Yuan Heng Electronics Co., Ltd., Ms. Du Ming Fen, Mr. Du Ming Kun and Mr. Wong Sing Wan for the sale and purchase of 35% interest in the share capital of Shenzhen Yuanheng Liquid Crystal Display Industry Development Co. Ltd., an associate of the Group, and for a consideration of HK\$7,000,000 which was satisfied by way of HK\$2,000,000 in cash and the issue of a convertible note by the Company in the principal amount of HK\$5,000,000.

The convertible note was fully converted into 33,333,333 shares of HK\$0.10 each in the Company at a conversion price of HK\$0.15 per share during the period ended December 31, 2000.

- (e) On June 12, 2000, the Company entered into a conditional sale and purchase agreement with Warburg, Pincus Ventures, L. P. ("WPV") to acquire from WPV the entire equity interest in and shareholder's loan to New China Control Systems Limited at a consideration of US\$10,000,000 which was satisfied by the issue and allotment of 211,382,114 new shares of HK\$0.10 each in the Company. New China Control Systems Limited is an investment holding company which holds a 41% interest in Xin Hua Control Engineering Company Limited.

On the same date, the Company entered into a conditional sale and purchase agreement with Warburg, Pincus Venture International, L.P., Warburg, Pincus Equity Partners, L.P., Warburg, Pincus Netherlands Equity Partners I, C.V., Warburg, Pincus Netherlands Equity Partners II, C.V., and Warburg, Pincus Netherlands Equity Partners III, C.V. (collectively known as "WP Seoul I Vendors") to acquire from WP Seoul I Vendors the entire interest in WP Seoul I at a consideration of US\$12,800,000 which was satisfied by the issue and allotment of 270,569,106 new shares of HK\$0.10 each in the Company. WP Seoul I is an investment holding company which holds a 22.4% interest in IBR Inc. at December 31, 2000.

- (f) On September 11, 2000, the Group entered into a conditional agreement with Win Profits Investments Limited ("Win Profits") to acquire from Win Profits its entire equity interest in Great Choices International Limited ("Great Choices"), representing 15.29% of the entire issued share capital of Great Choices at a consideration of HK\$14,000,000 which was satisfied by the issue and allotment of 35,000,000 new shares of HK\$0.10 each in the Company at HK\$0.40 per share.

Notes to the Financial Statements

For the year ended December 31, 2001

31. SHARE CAPITAL (Continued)

- (g) The Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
October 2000	1,080,000	0.300	0.298	322,500

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

All the new ordinary shares issued by the Company during the period ended December 31, 2000 ranked pari passu with the then existing ordinary shares of the Company in all respects.

32. SHARE OPTION SCHEMES**(a) Company's share option scheme**

The Company has a share option scheme (the "Scheme") under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries, to subscribe for shares in the share capital of the Company at any time within ten years from July 26, 1993, date of approval of the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholder. The number of share in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. Option may be exercised at any time from the date of grant of share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Notes to the Financial Statements

For the year ended December 31, 2001

32. SHARE OPTION SCHEMES (Continued)**(a) Company's share option scheme (Continued)**

Details of the movements of the options during the year are as follows:

Date of grant	Exercise price HK\$	Number of share options outstanding as at 1.1.2001	Granted during the year	Cancelled during the year	Number of options outstanding as at 12.31.2001
3.10.2000	0.520	100,000,000	–	–	100,000,000
5.24.2000	0.290	50,000,000	–	–	50,000,000
6.20.2000	0.385	1,000,000	–	(1,000,000)	–
6.26.2000	0.390	1,000,000	–	–	1,000,000
8.15.2000	0.360	8,000,000	–	(8,000,000)	–
9.4.2000	0.378	50,000,000	–	–	50,000,000
2.5.2001	0.200	–	5,000,000	–	5,000,000
3.26.2001	0.210	–	2,000,000	–	2,000,000
		210,000,000	7,000,000	(9,000,000)	208,000,000

No consideration was received by the Company or the Group for options granted during the year/period.

(b) Subsidiary's share option scheme

The Company's former subsidiary, Egochina Holdings operates a share option scheme pursuant to which the board of directors of Egochina Holdings may, at its discretion, grant options to any employee of Egochina Holdings and its subsidiaries at HK\$1 per option to subscribe for ordinary shares in the capital of Egochina Holdings. The subscription price is determined by the board of Egochina Holdings and notified to each grantee and shall not be less than 80 per cent of the latest subscription price of shares of Egochina Holdings immediately preceding the date of offer of the option granted to a grantee or the nominal value of the share of Egochina Holdings, whichever is the higher.

An option may be exercised in accordance with the terms of the scheme at any time during a period to be notified by the board of Egochina Holdings to each grantee and in any event such period of time should not exceed 10 years commencing from the date of the option is accepted.

Egochina Holdings ceased to be a subsidiary of the Company during the year. No options were granted for the period from September 1, 1999 to the date on which Egochina Holdings ceased to be a subsidiary of the Company.

Notes to the Financial Statements

For the year ended December 31, 2001

33. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP					
At September 1, 1999	82,229	510	(1,528)	(145,462)	(64,251)
Premium arising from issue of shares	306,273	–	–	–	306,273
Premium on repurchase of shares	(215)	–	–	–	(215)
Exchange difference arising on translation of overseas operations	–	–	(8,915)	–	(8,915)
Realised on disposal of subsidiaries	–	(510)	1,528	–	1,018
Net loss for the period	–	–	–	(98,188)	(98,188)
At January 1, 2001	388,287	–	(8,915)	(243,650)	135,722
Premium on repurchase of shares	(212)	–	–	–	(212)
Exchange difference arising on translation of overseas operations	–	–	(2,230)	–	(2,230)
Provision for impairment loss relating to an associate disposed of subsequent to the year end date	–	–	11,163	–	11,163
Net loss for the year	–	–	–	(141,890)	(141,890)
At December 31, 2001	388,075	–	18	(385,540)	2,553
Attributable to:					
The Company and subsidiaries	388,075	–	–	(344,167)	43,908
Associates	–	–	18	(41,373)	(41,355)
	388,075	–	18	(385,540)	2,553

Notes to the Financial Statements

For the year ended December 31, 2001

33. RESERVES (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At September 1, 1999	82,229	43,852	(221,525)	(95,444)
Premium arising from issue of shares	306,273	–	–	306,273
Premium on repurchase of shares	(215)	–	–	(215)
Net loss for the period	–	–	(71,545)	(71,545)
At January 1, 2001	388,287	43,852	(293,070)	139,069
Premium on repurchase of shares	(212)	–	–	(212)
Net loss for the year	–	–	(138,772)	(138,772)
At December 31, 2001	388,075	43,852	(431,842)	(85)

The contributed surplus represents the difference between the value of net assets of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries in 1991.

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

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

The Company did not have any distributable reserve as at December 31, 2001 and 2000.

Notes to the Financial Statements

For the year ended December 31, 2001

34. POTENTIAL DEFERRED TAXATION

The major components of the potential deferred taxation asset (liability) not recognised at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Tax losses carried forward	16,312	14,815	1,758	1,758
Shortfall (excess) of tax depreciation allowance and accounting depreciation	22	(109)	–	–
	16,334	14,706	1,758	1,758

The potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

Deferred taxation has not been provided on the revaluation difference of investment properties as profits arising from disposal of these assets will not be subject to taxation and accordingly the revaluation difference does not constitute a timing difference for taxation purpose.

The amount of unrecognised deferred tax credit (charge) for the year/period is as follows:

	THE GROUP		THE COMPANY	
	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
Tax effect of timing differences attributable to:				
Tax losses arising (utilised)	1,497	2,995	–	(44)
Shortfall (excess) of tax depreciation allowance and accounting depreciation	131	(106)	–	–
	1,628	2,889	–	(44)

Notes to the Financial Statements

For the year ended December 31, 2001

35. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1.1.2001 to 12.31.2001 HK\$'000	9.1.1999 to 12.31.2000 HK\$'000
Loss before taxation	(140,299)	(97,013)
Share of results of associates	34,433	1,082
Amortisation of goodwill	112	169
Amortisation of premium on acquisition of associates	6,662	3,529
Gain on deemed disposal of subsidiaries	(1,817)	(11,513)
Gain on disposal of other investments	(6,771)	–
(Gain) loss on disposal of investment properties	(1,813)	72
Loss on deemed disposal of an associate	–	422
Deficit arising on revaluation of investment properties	6,110	8,188
Provision for impairment loss/surrender of licence rights	–	4,644
Depreciation and amortisation	430	3,884
Loss on disposal of property, plant and equipment	–	687
Loss on disposal of club debenture	–	350
Impairment loss of club debenture	–	750
Provision for impairment loss of investment securities	47,965	38,965
Provision for impairment loss of associates	41,555	–
Provision for inventories written back	–	(669)
Loss on disposal of subsidiaries	–	7,347
Interest expense	1,710	9,631
Interest income	(4,030)	(9,782)
Decrease in inventories	–	10,639
Decrease (increase) in debtors, deposits and prepayments	(22)	(16,586)
Increase in creditors and accrued charges	3,266	5,987
Net cash outflow from operating activities	(12,509)	(39,217)

Notes to the Financial Statements

For the year ended December 31, 2001

36. ACQUISITION OF SUBSIDIARIES

	1.1.2001 to 12.31.2001 <i>HK\$'000</i>	9.1.1999 to 12.31.2000 <i>HK\$'000</i>
Net assets acquired:		
Interests in associates	–	119,114
Debtors, deposits and prepayments	–	1,151
Bank balances and cash	3,017	16,431
Creditors and accrued charges	(3,003)	(96)
Minority interests	–	(4,071)
	14	132,529
Investment in an option (see note 21)	41,986	–
Premium arising on acquisition of associates and attributable goodwill	–	61,641
	42,000	194,170
Satisfied by:		
Shares allotted	–	177,358
Cash paid	42,000	16,812
	42,000	194,170
Net cash outflow arising on acquisition:		
Cash consideration	(42,000)	(16,812)
Bank balances and cash acquired	3,017	16,431
	(38,983)	(381)
Less: Deposit paid in prior period	31,869	–
	(7,114)	(381)

During the year/period since acquisition, the acquired subsidiaries had no significant effect on the cash flows of the Group.

Notes to the Financial Statements

For the year ended December 31, 2001

37. DISPOSAL OF SUBSIDIARIES

	1.1.2001 to 12.31.2001	Disposal of discontinued operations	9.1.1999 to 12.31.2000 Other disposal	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net assets disposed of:				
Investment properties	–	–	10,298	10,298
Licence rights	–	3,022	–	3,022
Property, plant and equipment	18,622	4,046	9,786	13,832
Inventories	–	10,640	–	10,640
Debtors, deposits and prepayments	24,417	13,014	779	13,793
Bank balances and cash	31,856	6,769	–	6,769
Creditors and accrued charges	(11,671)	(25,248)	(335)	(25,583)
Bank overdrafts	–	(3,659)	–	(3,659)
Bills payable	–	(7,934)	–	(7,934)
Bank loan	–	(1,682)	–	(1,682)
Minority interests	(32,497)	–	–	–
	30,727	(1,032)	20,528	19,496
Attributable goodwill (capital reserve)	3,090	(510)	–	(510)
Translation reserve realised	–	1,528	–	1,528
	33,817	(14)	20,528	20,514
Gain (loss) on disposal	–	417	(7,764)	(7,347)
Reclassified to interest in associates/ total consideration	33,817	403	12,764	13,167
Net cash inflow arising on disposal:				
Cash consideration	–	403	12,945	13,348
Less: Legal and professional fee	–	–	(181)	(181)
Bank balances and cash disposed of	(31,856)	(6,769)	–	(6,769)
Bank overdrafts disposed of	–	3,659	–	3,659
Bills payable disposed of	–	7,934	–	7,934
	(31,856)	5,227	12,764	17,991

Notes to the Financial Statements

For the year ended December 31, 2001

37. DISPOSAL OF SUBSIDIARIES (Continued)

During the year, the Group ceased to control the board of directors of Egochina Holdings, a former subsidiary of the Company, as a result of additional share subscription by other shareholders of Egochina Holdings. As a result of the additional share subscription by Egochina Holdings, the Group's interest in Egochina Holdings has been diluted from 58% to 52%, and the shareholders of Egochina Holdings have agreed to revise the proceedings at the board of directors meeting of Egochina Holdings, and under which the Group is no longer able to control the board of directors of Egochina Holdings. Accordingly, the carrying value of Egochina Holdings was reclassified to interest in associates.

Egochina Holdings do not have significant contribution to the Group's net operating cash flows, net returns on investment and servicing of finance, investing activities and financing activities before it was reclassified to interest in associates.

The subsidiaries disposed of during the period ended December 31, 2000 contributed HK\$21,708,000 to the Group's net operating cash flows, paid HK\$2,485,000 in respect of the net returns on investment and servicing of finance, utilised HK\$11,440,000 for investing activities and repaid HK\$3,274,000 in respect of financing activities.

38. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the period ended December 31, 2000 are detailed in note 31 to the financial statements.

Notes to the Financial Statements

For the year ended December 31, 2001

39. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD

	Share capital	Share premium	Bank loans	Obligations under a hire purchase contract	Loan from former ultimate/ ultimate company holding	Loan from a minority shareholder to a subsidiary	Minority interests	Amount due to a shareholder
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at September 1, 1999	104,464	82,229	50,410	27	19,215	707	-	-
Advances during the period	-	-	-	-	-	46	-	4,892
Repayments during the period	-	-	(16,353)	(17)	(19,215)	-	-	-
Issue of shares for cash	195,000	164,038	-	-	-	-	-	-
Share repurchased and cancelled	(108)	(215)	-	-	-	-	-	-
Capital contributed by minority shareholders	-	-	-	-	-	-	27,839	-
Other movements not involving cash flows:								
Issue of new shares for acquisition								
of investment properties	9,046	905	-	-	-	-	-	-
On acquisition of subsidiaries	48,195	129,163	-	-	-	-	4,071	-
On acquisition of associate	3,333	1,667	-	-	-	-	-	-
On acquisition of investment	3,500	10,500	-	-	-	-	-	-
On disposal of subsidiaries	-	-	(1,682)	-	-	-	-	-
Exchange adjustments	-	-	-	-	-	-	(10)	-
Loss for the period	-	-	-	-	-	-	(1,150)	-
Gain on deemed disposal of subsidiaries	-	-	-	-	-	-	(11,513)	-
Balance as at January 1, 2001	363,430	388,287	32,375	10	-	753	19,237	4,892
Repayments during the year	-	-	(14,335)	(10)	-	-	-	-
Share repurchased and cancelled	(205)	(212)	-	-	-	-	-	-
Capital contributed by minority shareholders	-	-	-	-	-	-	15,604	-
Decrease on reclassification of the subsidiary to an associate	-	-	-	-	-	-	(32,497)	(4,892)
Other movements not involving cash flows:								
Exchange adjustments	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	(527)	-
Capital contributed by minority shareholders shared by the Group	-	-	-	-	-	-	(1,817)	-
Balance as at December 31, 2001	363,225	388,075	18,040	-	-	753	-	-

Notes to the Financial Statements

For the year ended December 31, 2001

40. PLEDGE OF ASSETS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
To secure the general banking facilities granted to the Group:				
Investment properties	27,490	45,300	-	-
Bank deposits	7,840	-	-	-
	35,330	45,300	-	-

41. CONTINGENT LIABILITIES**THE GROUP AND THE COMPANY**

At December 31, 2000, the Group and the Company had given an unlimited corporate guarantee to a bank for general bank facilities granted to certain former subsidiaries engaged in retailing business. The banking facilities utilised by the former subsidiaries at December 31, 2000 were approximately HK\$9,637,000. The unlimited corporate guarantee was terminated during the year.

The Group did not have any contingent liability at December 31, 2001.

THE COMPANY

At December 31, 2001, the Company has given an unlimited corporate guarantee to a bank for general banking facilities granted to a subsidiary. The banking facilities utilised by the subsidiary at December 31, 2001 were approximately HK\$18,040,000 (2000:HK\$32,375,000).

Notes to the Financial Statements

For the year ended December 31, 2001

42. OPERATING LEASE ARRANGEMENT

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	2001 HK\$'000	2000 HK\$'000
Within one year	1,590	1,413
In the second to fifth year inclusive	662	2,001
	2,252	3,414

Operating lease payments represent rental payable by the Group for its office property. Lease is negotiated for a term of two years.

Certain of the properties held have committed tenants for the next two years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	2001 HK\$'000	2000 HK\$'000
Within one year	978	121
In the second to fifth year inclusive	453	30
	1,431	151

The Company did not have any lease commitments at the balance sheet date.

43. RETIREMENT BENEFITS SCHEME

In December 2000, the Group enrolled all eligible employees into a Mandatory Provident Fund ("MPF") Scheme. The assets of MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

The Group operated a defined contribution retirement benefits scheme for all qualifying employees for the period ended December 31, 2000. The assets of the scheme are held separately from those of the Group under the control of independent trustees. The amount charged to the income statement represents contributions paid and payable to the scheme by the Group at rates specified in the rules of the scheme less forfeiture arising from employees leaving the Group prior to completion of qualifying service period, if any. At December 31, 2000, the Group had no significant amount of forfeited contributions which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable in future years.

The defined contribution retirement benefits scheme was terminated in the prior period.

Notes to the Financial Statements

For the year ended December 31, 2001

44. RELATED PARTY TRANSACTIONS

Details of transactions with related parties for the year ended December 31, 2001 are as follows:

- (a) On December 11, 2000, Egochina Holdings entered into a subscription agreement with Rado International Limited ("Rado"), a wholly-owned subsidiary of the Company and Atlantic Cay whereby Rado and Atlantic Cay agreed to subscribe for 1,000,000 and 2,000,000 Preferred Shares respectively at an aggregate consideration of US\$3,000,000. The consideration was satisfied in cash. The transaction was completed in January 2001 after approval at the Special General Meeting of the Company held on January 15, 2001.
- (b) During the year, the Group received interest income of approximately HK\$237,000 from an associate in respect of a loan to an associate. The interest is charged at Hong Kong prime rate.

Details of the transactions with related parties for the period from September 1, 1999 to December 31, 2000 were as follows:

- (a) An agreement dated June 12, 2000 was entered into between the Company and Warburg, Pincus Ventures, L.P. ("WPV"). WPV is an associate of a substantial shareholder of the Company, Atlantic Cay. Pursuant to the terms and conditions set out therein, the Company agreed to acquire from WPV 1 share of US\$1.00 in the capital of New China Control System Limited ("New China") representing its entire issued share capital and the loan in principal amount of US\$3,375,000 due and owing by New China to WPV, at a consideration of US\$10,000,000. The consideration was satisfied by the issue and allotment of 211,382,114 shares of HK\$0.10 each of the Company to WPV.
- (b) An agreement dated June 12, 2000 was entered into between the Company and Warburg, Pincus Venture International, L.P., Warburg, Pincus Equity Partners, L.P., Warburg, Pincus Netherlands Equity Partner I, C. V., Warburg, Pincus Netherlands Equity Partners II, C.V., and Warburg, Pincus Netherlands Equity Partners III, C.V. (collectively known as "WP Seoul I Vendors"). WP Seoul I Vendors are the beneficial shareholders of the entire issued share capital of Atlantic Cay. Pursuant to the terms and conditions set out therein, the Company agreed to acquire the entire issued share capital of WP Seoul I, Inc. which is the registered owner of 133,940 common shares of IBR, Inc., representing 22.57% of its equity interest. The consideration payable by the Company is US\$12,800,000 which was satisfied by the issue and allotment of 270,569,106 shares of HK\$0.10 each of the Company to Atlantic Cay.

Notes to the Financial Statements

For the year ended December 31, 2001

44. RELATED PARTY TRANSACTIONS (Continued)

- (c) Rado International Limited ("Rado"), a wholly-owned subsidiary of the Company and Ms. Ni Lin and Mr. Li Zhi Qiang, the founders of Egochina.com Consultancy Services Co., Ltd. (a subsidiary of Egochina Holdings Limited), who respectively holds 83.33% and 16.67% interest in Egochina Holdings Limited entered into an agreement with Atlantic Cay, iVentures I, L.P. and Comtech Development Co., Ltd. (collectively the "Investors") and Egochina Holdings Limited on June 12, 2000 for the subscription of the Series A voting convertible preferred shares of US\$0.001 each in the capital of Egochina Holdings Limited ("Preferred Shares") by the Investors. The subscription price of the Preferred Shares was an aggregate of US\$3,100,000. The subscription price payable by Atlantic Cay and iVentures I, L.P. were US\$2,000,000 and US\$1,000,000 respectively which were satisfied in cash while the amount of US\$100,000 payable by Comtech Development Co., Ltd. was satisfied by the provision of information technology services.
- (d) On September 11, 2000, Datalink Asia Limited, a wholly-owned subsidiary of the Company entered into an agreement with Win Profits Investments Limited ("Win Profits") to acquire from Win Profits its entire equity interest in Great Choices International Limited ("Great Choices"), representing 15.29% of the entire issued share capital of Great Choices at a consideration of HK\$14,000,000. The consideration was satisfied by the issue and allotment of 35,000,000 shares of HK\$0.10 each of the Company to Win Profits. The entire issued share capital of Win Profits is wholly and beneficially owned by Mr. Koo Fook Sun Louis, a director of the Company.
- (e) On December 11, 2000, Egochina Holdings Limited entered into a subscription agreement with Rado and Atlantic Cay whereby Rado and Atlantic Cay agreed to subscribe for 1,000,000 and 2,000,000 Preferred Shares respectively at an aggregate consideration of US\$3,000,000. The consideration was satisfied in cash. The transaction was completed in January 2001 after approval at the Special General Meeting of the Company held on January 15, 2001.
- (f) Silver Grant International Industries Limited, a substantial shareholder of the Company, made an unsecured and interest free advance amounting to approximately HK\$4,892,000 at December 31, 2000 to the Group. The loan was repaid during the year.
- (g) Project China Holdings Limited, a former ultimate holding company of the Company, advanced an unsecured loan amounting to approximately HK\$19,215,000 at August 31, 1999 to the Company. The loan bore interest at 1% above Hong Kong Prime Rate per annum. The interest expenses paid to the Project China Holdings Limited during the period was approximately HK\$1,832,000. The loan was repaid during the period ended December 31, 2000.

Details of balances with related parties and other transactions with related parties are also set out in other notes to the financial statements.

Notes to the Financial Statements

For the year ended December 31, 2001

45. POST BALANCE SHEET EVENTS

- (a) In November, 2001, Premium Profits Limited, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party for the disposal of the entire interest in WP Seoul I Inc., which holds 22.4% interest in IBR, at a consideration of US\$3,469,550. The carrying value of the Group's interest in IBR, including the balance in the translation reserve relating to IBR, at December 31, 2001 was written down to the net realisable value. The disposal was completed in January, 2002.
- (b) On March 8, 2002, the Company entered into an acquisition agreement ("Acquisition Agreement") with Sinolink Worldwide Holdings Limited ("Sinolink"). Pursuant to the terms of Acquisition Agreement, Sinolink has agreed to sell and the Company has agreed to purchase the entire issued share capital of Sinolink Industrial Limited ("Sinolink Industrial") ("Acquisition").

Sinolink Industrial is interested in 70% of the registered capital of Shenzhen Fuhuade Electricity Co., Ltd. ("Fuhuade"), a sino-foreign equity joint venture company established in the People's Republic of China, through a wholly owned subsidiary, Sinolink Electric Power Company Limited ("Sinolink Electric Power"). Sinolink has also agreed to assign a shareholders' loan in an amount equivalent to approximately HK\$137.90 million which is interest free owing to Sinolink by Sinolink Industrial to the Company. The consideration of the Acquisition and the assignment of the shareholders' loan is approximately HK\$360.40 million, of which approximately HK\$163.40 million shall be satisfied by cash at completion and the balance of HK\$197 million shall remain payable on demand and shall carry interest until actual payment at the rate of 3% per annum payable semi-annually. However, Sinolink undertakes that as long as Sinolink is a substantial shareholder of the Company, Sinolink will not demand the balance of HK\$197 million from the Company, which actions will detrimentally affect the financial resources and daily operations of the Company. Payment of approximately HK\$197 million and the interest accrued thereon shall be secured by share charges given by the Company and Sinolink Industrial respectively over the shares in Sinolink Industrial and Sinolink Electric Power respectively and an undertaking to be given by Sinolink Electric Power not to create any security interest over its interest in 70% of the registered capital of Fuhuade, in each case in favour of Sinolink.

In addition, a profit guarantee provided by Sinolink under the Acquisition that the profits after taxation of Fuhuade arising from its ordinary activities and excluding any exceptional or extraordinary item (i) for the two financial years ending December 31, 2003 in aggregate is less than RMB135,000,000; or (ii) for the year ended December 31, 2003 is less than RMB110,000,000 (each being the "Relevant Guaranteed Profit"), Sinolink shall pay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profits and the corresponding profit.

- (c) Silver Grant International Industries Limited ("Silver Grant"), a substantial shareholder of the Company, entered into a conditional agreement with Sinolink on March 8, 2002 for the disposal of 1,089,310,445 shares of the Company at a total consideration of HK\$163,400,000. The transaction is not yet completed at the date of this report.

Notes to the Financial Statements

For the year ended December 31, 2001

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(a) Details of the Company's principal subsidiaries as at December 31, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Alyo Limited	Hong Kong	HK\$2	-	100	Property investment
Eastern Pith Investment Limited	Hong Kong	HK\$100	-	100	Property investment
Hanka Limited	Hong Kong	HK\$2	-	100	Holding of club membership
Osebery Company Limited	Hong Kong	HK\$100	-	100	Investment holding and property investment
Peaceway Investment Limited	Hong Kong	HK\$100	-	100	Property investment
Righteous Investments Company Limited	Hong Kong	HK\$2,500,000	100	-	Provision of group treasury function
Silvernet Resources Limited	Hong Kong	HK\$2	100	-	Provision of management services
Sinolike Investment Limited	Hong Kong	HK\$2	-	100	Property investment
Xedak International Limited	Hong Kong	HK\$2	-	100	Property investment
Xeno International Limited	Hong Kong	HK\$2	-	100	Property investment
Datalink Asia Limited	BVI	US\$1	100	-	Investment holding
Premium Profits Limited	BVI	US\$1	100	-	Investment holding
Aceway International Limited	BVI	US\$1	100	-	Investment holding

Notes to the Financial Statements

For the year ended December 31, 2001

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

- (a) Details of the Company's principal subsidiaries as at December 31, 2001 are as follows:
(Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
New China Control Systems Limited	BVI	US\$1	100	-	Investment holding
Rado International Limited	BVI	US\$1	100	-	Investment holding
Deco Investment Limited	BVI	US\$1	100	-	Provision of consultancy services

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period 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.

Notes to the Financial Statements

For the year ended December 31, 2001

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(b) Details of the Group's associates at December 31, 2001 are as follows:

Name of Company	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Principal activities
IBR, Inc.	Korea	22.40%	Provision of internet connection infrastructure related services in Korea
Shenzhen Yuanheng Liquid Crystal Display Industry Development Co. Ltd.	PRC	35%	Production of the Indium Tin Oxide, electroluminescent little night lamps and electroluminescent
Xin Hua Control Engineering Company Limited	PRC	41%	Manufacture and sale of control systems for power plant and large scale manufacturing plants
EgoChina Holdings Limited	Cayman Island	52%	Investment holding
Onson Investment Limited	BVI	51.52%	Investment holding
EgoChina.com Consultancy Services Co., Ltd.	PRC	46.37%	Provision of management and technical consultancy services to a corporate online travel service business in PRC