

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries and associates are set out in notes 42 and 43, respectively, to the financial statements.

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

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs 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 SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation. The adoption of these new and revised SSAPs has no effect on the results reported 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 certain properties and 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 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective date of acquisition or disposal, respectively.

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

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 or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on 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.

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 an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary or associate.

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.

Negative goodwill is 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 in income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

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

Interests 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, less any identified impairment loss.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Investments in securities

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

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Revenue recognition

Intelligent Transportation Systems contracts

Intelligent Transportation Systems (“ITS”) products include products produced or manufactured using the technology of Global Positioning Systems (“GPS”).

When the outcome of an ITS contract can be estimated reliably, revenue from a fixed price contract is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date to estimated total costs of that contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of an ITS contract can be estimated reliably, revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date against the estimated total costs of the contract.

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

Others

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

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

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 shareholder’s rights to receive payment have been established.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Properties in the course of development for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of assets, other than properties under development, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	4% or over the term of lease, whichever is shorter
Plant and equipment	5% – 15%
Others	6% – 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

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 independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

Leases

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

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

Technology licence rights

Technology licence rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is provided to write off the cost of right over the licence period on a straight line basis.

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenses *(continued)*

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are calculated using the weighted average cost method.

The cost of properties for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

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.

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 an income immediately.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Retirement benefits scheme

According to the Mandatory Provident Fund (“MPF”) legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group is required to participate in MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees in Hong Kong.

Employees in the People’s Republic of China, other than in Hong Kong (the “PRC”) are members of the state-sponsored pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The above contributions are charged to the income statement as an expense.

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. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereof are dealt with in the translation reserve.

Taxation

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 an expense in the period in which they are incurred.

4. TURNOVER

Turnover represents the gross invoiced sales of goods less discounts and returns, revenue from ITS contracts, rental income, investment income, interest income and proceeds on sales of properties as follows:

	2001	2000
	HK\$'000	HK\$'000
Sales of goods	904,673	934,854
Rental income	40,874	27,908
Proceeds on sales of properties	40,751	16,964
Interest income	12,657	82,025
Investment income	9,338	2,978
Revenue from ITS contracts	—	1,290
	<u>1,008,293</u>	<u>1,066,019</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

(a) Business segments:

Segment information in respect of revenue for the year ended 31 December 2001 is presented below:

INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter- segment sales <i>HK\$'000</i>	Total revenue <i>HK\$'000</i>
REVENUE			
Manufacturing			
Plastic products	212,838	17,170	230,008
Liquid crystal display	53,793	–	53,793
Audio–video products	188,638	–	188,638
Printed circuit boards	107,799	–	107,799
Telecommunication products	92,999	601	93,600
Intelligent chargers and security system	143,754	1,010	144,764
Other products	20,095	18	20,113
Property	81,625	10,809	92,434
Trading	84,757	518	85,275
Finance	12,657	12,355	25,012
Others	9,338	–	9,338
	<u>1,008,293</u>	<u>42,481</u>	<u>1,050,774</u>
Eliminations	<u>–</u>	<u>(42,481)</u>	<u>(42,481)</u>
Consolidated total	<u><u>1,008,293</u></u>	<u><u>–</u></u>	<u><u>1,008,293</u></u>

Inter-segment sales are charged at prevailing market prices.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments: *(continued)*

Segment information in respect of the results for the year ended 31 December 2001 is presented below:

RESULTS

	Amount <i>HK\$'000</i>
Manufacturing	
Plastic products	29,757
Liquid crystal display	(8,947)
Audio-video products	(22,824)
Printed circuit boards	25,777
Telecommunication products	(49,735)
Intelligent chargers and security system	14,000
Other products	(26,993)
Property	34,322
Trading	(3,440)
Finance	8,964
Others	(168,348)
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	(167,467)
Eliminations	(26,403)
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Total segment results	(193,870)
Unallocated corporate expenses	(87,644)
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Loss from operations	(281,514)
Finance costs	(113,133)
Share of results of associates <i>(note 1)</i>	(717)
Impairment loss recognised in respect of interests in associates <i>(note 2)</i>	(470,116)
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Loss before taxation	(865,480)
Taxation	(666)
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Loss before minority interests	<u>(866,146)</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments: *(continued)*

Segment information in respect of the results for the year ended 31 December 2001 is presented below *(continued)*:

RESULTS *(continued)*

Notes:

	Amount <i>HK\$'000</i>
(1) Share of results of associates:	
Manufacturing	
Telecommunication products	(1,559)
Other products	40
Others	802
	(717)
(2) Impairment loss recognised in respect of interests in associates:	
Manufacturing	
Telecommunication products	(198,000)
Other products	(272,116)
	(470,116)

Segment information in respect of balance sheet at 31 December 2001 is presented below:

BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS			
Manufacturing			
Plastic products	186,509	–	186,509
Liquid crystal display	65,019	–	65,019
Audio–video products	202,883	–	202,883
Printed circuit boards	113,048	–	113,048
Telecommunication products	223,211	44,180	267,391
Intelligent chargers and security system	58,866	–	58,866
Other products	45,803	2,287	48,090
Property	878,020	44,879	922,899
Trading	88,548	–	88,548
Finance	1,177,559	–	1,177,559
Others	75,393	41,856	117,249
	3,114,859	133,202	3,248,061
Unallocated corporate assets			274,543
Consolidated total			3,522,604

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2001 is presented below (continued):

BALANCE SHEET (continued)

	Segment liabilities HK\$'000
LIABILITIES	
Manufacturing	
Plastic products	44,609
Liquid crystal display	7,270
Audio-video products	113,799
Printed circuit boards	18,561
Telecommunication products	128,335
Intelligent chargers and security system	18,366
Other products	9,993
Property	166,249
Trading	86,032
Finance	423,028
Others	20,662
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	1,036,904
Unallocated corporate liabilities	1,256,300
	<hr/>
Consolidated total	<u>2,293,204</u>

	Capital additions HK\$'000	Depreciation and amortisation HK\$'000	Impairment losses HK\$'000
OTHER INFORMATION			
Manufacturing	75,657	54,236	511,884
Property	39,695	10,037	6,479
Trading	59	849	–
Finance	–	4	–
Others	3,207	14,296	199,399
	<hr/>	<hr/>	<hr/>
Consolidated total	<u>118,618</u>	<u>79,422</u>	<u>717,762</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of revenue for the year ended 31 December 2000 is presented below:

INCOME STATEMENT

	External sales HK\$'000	Inter- segment sales HK\$'000	Total revenue HK\$'000
REVENUE			
Manufacturing			
Plastic products	143,813	13,276	157,089
Liquid crystal display	66,907	–	66,907
Audio–video products	263,753	–	263,753
Printed circuit boards	124,414	–	124,414
Telecommunication products	145,199	–	145,199
Intelligent chargers and security system	131,488	3,935	135,423
Other products	30,286	846	31,132
Property	44,872	8,768	53,640
Trading	28,994	–	28,994
Finance	82,025	16,681	98,706
Others	4,268	–	4,268
	<u>1,066,019</u>	<u>43,506</u>	<u>1,109,525</u>
Eliminations	–	(43,506)	(43,506)
	<u>1,066,019</u>	<u>–</u>	<u>1,066,019</u>

Inter-segment sales are charged at prevailing market prices.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments: *(continued)*

Segment information in respect of the results for the year ended 31 December 2000 is presented below:

RESULTS

	Amount <i>HK\$'000</i>
Manufacturing	
Plastic products	20,843
Liquid crystal display	(6,843)
Audio-video products	(149,363)
Printed circuit boards	28,350
Telecommunication products	(57,527)
Intelligent chargers and security system	(227)
Other products	(41,509)
Property	14,292
Trading	(3,848)
Finance	(559,631)
Others	(39,084)
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	(794,547)
Eliminations	(28,337)
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Total segment results	(822,884)
Unallocated corporate expenses	(55,669)
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Loss from operations	(878,553)
Finance costs	(135,155)
Share of results of associates <i>(note 1)</i>	(59,642)
Impairment loss recognised in respect of interests in associates <i>(note 2)</i>	(44,000)
Gain on disposal of subsidiaries and an associate	54,366
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Loss before taxation	(1,062,984)
Taxation	(8,866)
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Loss before minority interests	<u>(1,071,850)</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2000 is presented below (continued):

RESULTS (continued)

Notes:

	Amount HK\$'000
(1) Share of results of associates:	
Manufacturing	
Telecommunication products	(417)
Others	(1,040)
Property	(60,000)
Others	1,815
	<u>(59,642)</u>
(2) Impairment loss recognised in respect of amounts due from associates:	
Manufacturing	
Telecommunication products	<u>(44,000)</u>

Segment information in respect of balance sheet at 31 December 2000 is presented below:

BALANCE SHEET

	Segment assets HK\$'000	Interests in associates HK\$'000	Total HK\$'000
ASSETS			
Manufacturing			
Plastic products	189,351	–	189,351
Liquid crystal display	87,659	–	87,659
Audio–video products	264,495	–	264,495
Printed circuit boards	126,799	–	126,799
Telecommunication products	427,479	95,249	522,728
Intelligent chargers and security system	47,011	–	47,011
Other products	74,484	247,920	322,404
Property	889,064	44,879	933,943
Trading	91,616	–	91,616
Finance	1,213,058	–	1,213,058
Others	69,761	49,314	119,075
	<u>3,480,777</u>	<u>437,362</u>	3,918,139
Unallocated corporate assets			<u>540,072</u>
Consolidated total			<u>4,458,211</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2000 is presented below (continued):

BALANCE SHEET (continued)

	Segment liabilities
	<i>HK\$'000</i>
LIABILITIES	
Manufacturing	
Plastic products	45,841
Liquid crystal display	7,890
Audio-video products	44,114
Printed circuit boards	33,042
Telecommunication products	191,398
Intelligent chargers and security system	12,571
Other products	29,459
Property	127,009
Trading	4,860
Finance	308,845
Others	40,800
	<u>845,829</u>
Unallocated corporate liabilities	1,477,698
	<u>2,323,527</u>

	Capital additions	Depreciation and amortisation	Impairment losses
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OTHER INFORMATION			
Manufacturing	147,328	51,681	49,311
Property	13,734	10,101	–
Trading	3	611	–
Finance	–	4	583,215
Others	533	14,380	15
	<u>161,598</u>	<u>76,777</u>	<u>632,541</u>
Consolidated total	<u>161,598</u>	<u>76,777</u>	<u>632,541</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments:

- (i) The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market		Loss from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	664,737	669,355	(167,503)	(701,917)
PRC	343,556	396,664	(26,367)	(120,967)
	<u>1,008,293</u>	<u>1,066,019</u>	<u>(193,870)</u>	<u>(822,884)</u>
Unallocated corporate expenses			<u>(87,644)</u>	<u>(55,669)</u>
Loss from operations			<u>(281,514)</u>	<u>(878,553)</u>

- (ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,403,192	3,327,175	51,317	97,552
PRC	1,119,412	1,131,036	67,301	64,046
	<u>3,522,604</u>	<u>4,458,211</u>	<u>118,618</u>	<u>161,598</u>

□ **NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED) □

For the year ended 31 December 2001

6. LOSS FROM OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of development costs (note)	7,094	6,677
Amortisation of technology license right (note)	–	1,170
Auditors' remuneration	3,641	5,093
Depreciation on		
– owned assets	70,517	65,568
– assets held under finance leases	1,811	3,362
Minimum lease payments paid under operating leases		
on land and buildings	4,868	11,879
Allowance for obsolete inventories	22,199	79,139
Research expenses	2,145	8,078
Total staff costs, including directors' remuneration	141,212	137,820
and after crediting:		
Gross rental income from		
– land and buildings	2,626	5,600
– investment properties	41,904	22,309
	44,530	27,909
<i>Less: Outgoings</i>	(4,728)	(2,584)
	39,802	25,325
Dividend income from listed investment securities	9,339	2,978
Gain on disposal of property, plant and equipment	195	136
Interest income	12,659	82,025

Note: The amounts are included in cost of sales and services.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Directors' fees		
Executives	170	230
Non-executives (excluding independent non-executives)	200	185
Independent non-executives	250	135
	<u>620</u>	<u>550</u>
Other emoluments		
Salaries and other benefits	3,099	5,452
Contributions to retirement benefits scheme	36	5
Bonuses	416	406
	<u>3,551</u>	<u>5,863</u>
Total emoluments	<u><u>4,171</u></u>	<u><u>6,413</u></u>

The emoluments of the directors were within the following bands:

Emoluments band	Number of directors	
	2001	2000
Nil – HK\$1,000,000	11	15
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>12</u>	<u>16</u>

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2000: three directors), details of whose emoluments are set out above. The emoluments of the remaining three (2000: two) highest paid individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	4,081	2,859
Contributions to retirement benefits scheme	36	2
	<u>4,117</u>	<u>2,861</u>

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals	
	2001	2000
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>3</u>	<u>2</u>

8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest expenses on:		
– bank loans and overdrafts wholly repayable within five years	75,107	73,471
– bank loans not wholly repayable within five years	17,005	21,874
– finance lease charges	530	711
– other loans wholly repayable within five years	20,491	34,893
Amortisation of issuing expenses	–	4,206
	<u>113,133</u>	<u>135,155</u>

9. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTERESTS IN ASSOCIATES

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

10. TAXATION

	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	5,657	4,996
– overprovision in previous years	(7,101)	(378)
Overseas income tax		
– current year	1,961	4,170
Taxation attributable to the Company and its subsidiaries	517	8,788
Share of overseas income tax attributable to associates	149	78
	666	8,866

Hong Kong Profits Tax is calculated at 16% (2000: 16%) on the estimated assessable profits for the year.

Overseas income tax represents the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries and the Group's associates are entitled to exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the concessions.

11. NET LOSS FOR THE YEAR

Of the net loss for the year, a loss of HK\$783,641,000 (2000: loss of HK\$794,477,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss for the year for the calculation of basic loss per share	<u>(736,311)</u>	<u>(1,017,429)</u>
	Number of shares (in thousand)	
Weighted average number of ordinary shares for the calculation of basic loss per share	<u>2,142,420</u>	<u>2,116,010</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land and buildings in Hong Kong HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in the PRC HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Short term leasehold land and buildings in the PRC HK\$'000	Properties under development HK\$'000	Plant and equipment HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
The Group									
COST									
At 1 January 2001	28,649	346,607	38,979	364,082	19,358	129,733	379,499	209,488	1,516,395
Currency realignment	-	-	643	5,435	14	2,016	3,923	1,095	13,126
Reclassifications	-	-	-	2,062	-	-	87	(2,149)	-
Additions	-	-	3	7,465	-	18,616	45,996	23,000	95,080
Disposals	-	-	(1,114)	-	(19,372)	-	(7,091)	(4,822)	(32,399)
At 31 December 2001	28,649	346,607	38,511	379,044	-	150,365	422,414	226,612	1,592,202
DEPRECIATION AND IMPAIRMENT									
At 1 January 2001	5,137	42,425	7,112	25,916	17,493	-	194,547	140,125	432,755
Currency realignment	-	-	114	538	14	-	1,675	659	3,000
Reclassifications	-	-	-	-	-	-	363	(363)	-
Charged for the year	572	9,429	1,329	8,158	1,851	-	32,948	18,041	72,328
Impairment	-	167,000	-	30,000	-	4,000	26,425	5,287	232,712
Eliminated on disposals	-	-	(442)	-	(19,358)	-	(4,201)	(3,704)	(27,705)
At 31 December 2001	5,709	218,854	8,113	64,612	-	4,000	251,757	160,045	713,090
NET BOOK VALUES									
At 31 December 2001	22,940	127,753	30,398	314,432	-	146,365	170,657	66,567	879,112
At 31 December 2000	23,512	304,182	31,867	338,166	1,865	129,733	184,952	69,363	1,083,640

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in the PRC HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Short term leasehold land and buildings in the PRC HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
The Company						
COST						
At 1 January 2001	303,254	1,113	42,647	18,506	45,618	411,138
Additions	–	–	–	–	3,142	3,142
Disposals	–	(1,113)	–	(18,506)	(496)	(20,115)
At 31 December 2001	303,254	–	42,647	–	48,264	394,165
DEPRECIATION AND IMPAIRMENT						
At 1 January 2001	28,905	397	–	16,655	28,002	73,959
Charged for the year	8,260	45	–	1,851	4,112	14,268
Impairment	167,000	–	30,000	–	2,399	199,399
Eliminated on disposals	–	(442)	–	(18,506)	(481)	(19,429)
At 31 December 2001	204,165	–	30,000	–	34,032	268,197
NET BOOK VALUES						
At 31 December 2001	99,089	–	12,647	–	14,232	125,968
At 31 December 2000	274,349	716	42,647	1,851	17,616	337,179

Notes:

- The aggregate net book values of the Group's assets held under finance leases at 31 December 2001 amounted to HK\$27,109,000 (2000: HK\$34,909,000).
- The properties under development are held under a medium term lease in the PRC.
- During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets are either subsequently disposed of at a loss or have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

14. INVESTMENT PROPERTIES

	Long term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Medium term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group			
VALUATION			
At 1 January 2001	41,280	376,368	417,648
Deficit on revaluation	(6,699)	(39,325)	(46,024)
Eliminated on disposals	(4,849)	(44,531)	(49,380)
	<u>29,732</u>	<u>292,512</u>	<u>322,244</u>
At 31 December 2001	<u>29,732</u>	<u>292,512</u>	<u>322,244</u>

The Group's investment properties have been revalued at 31 December 2001 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis. The above-mentioned revaluation has been adopted by the directors in these financial statements and the deficit on revaluation is charged to the investment property revaluation reserve.

15. DEVELOPMENT COSTS

	<i>HK\$'000</i>
The Group	
COST	
At 1 January 2001	43,268
Additions	7,938
Write off (<i>note</i>)	(28,261)
	<u>22,945</u>
At 31 December 2001	<u>22,945</u>
AMORTISATION	
At 1 January 2001	18,689
Amortised for the year	7,094
Eliminated on written off (<i>note</i>)	(13,327)
	<u>12,456</u>
At 31 December 2001	<u>12,456</u>
NET BOOK VALUES	
At 31 December 2001	<u>10,489</u>
At 31 December 2000	<u>24,579</u>

Note: During the year, the Group has undertaken a review of its development projects to assess the marketability of the respective products. The carrying value of the development costs amounting to HK\$14,934,000 mainly for development of certain communication and ITS products was fully written off.

16. TECHNOLOGY LICENCE RIGHT

HK\$'000

The Group

COST

At 1 January 2001	70,200
Amount waived by licensor	(50,700)
Additions	<u>15,600</u>
At 31 December 2001	<u>35,100</u>

AMORTISATION

At 1 January 2001	1,170
Amortised for the year	<u>–</u>
At 31 December 2001	<u>1,170</u>

NET BOOK VALUE

At 31 December 2001	<u>33,930</u>
At 31 December 2000	<u>69,030</u>

17. INTERESTS IN SUBSIDIARIES

The Company

	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	572,327	520,440
Amounts due from subsidiaries	<u>1,296,631</u>	<u>1,321,536</u>
Impairment loss recognised	<u>1,868,958</u>	<u>1,841,976</u>
	<u>(1,326,659)</u>	<u>(331,081)</u>
	<u>542,299</u>	<u>1,510,895</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

17. INTERESTS IN SUBSIDIARIES *(continued)*

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

Particulars of the principal subsidiaries of the Company at 31 December 2001 are set out in note 42.

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

18. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	108,866	118,086
Share of net assets	354,806	354,520	–	–
Amounts due from associates	73,963	82,842	–	–
	428,769	437,362	108,866	118,086
Impairment loss recognised	(295,567)	–	(64,213)	(65,639)
	133,202	437,362	44,653	52,447

Particulars of the principal associates of the Group at 31 December 2001 are set out in note 43.

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

19. INVESTMENTS IN SECURITIES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Investment securities:				
– listed	241,300	241,300	–	–
– unlisted	568,944	568,944	–	–
	<u>810,244</u>	<u>810,244</u>	<u>–</u>	<u>–</u>
Impairment loss recognised	(583,215)	(583,215)	–	–
	<u>227,029</u>	<u>227,029</u>	<u>–</u>	<u>–</u>
Other investments:				
– unlisted	23,708	23,708	23,704	23,704
	<u>250,737</u>	<u>250,737</u>	<u>23,704</u>	<u>23,704</u>
Market value of listed investments	<u>99,060</u>	<u>94,380</u>	<u>–</u>	<u>–</u>

20. INVENTORIES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	77,226	106,223
Work-in-progress	23,993	37,594
Finished goods	117,126	132,856
Properties for sale (<i>note</i>)	239,743	193,737
	<u>458,088</u>	<u>470,410</u>

Included above are raw materials of HK\$41,695,000 (2000: HK\$27,726,000), work-in-progress of HK\$3,753,000 (2000: HK\$1,050,000), finished goods of HK\$60,095,000 (2000: HK\$79,856,000) and properties for sale of HK\$9,808,000 (2000: HK\$10,812,000) carried at net realisable values.

Note: The Group is in the process of applying for the title of the properties in the PRC with carrying value of HK\$155,958,000 (2000: HK\$155,958,000).

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	129,961	165,178	–	–
Other receivables, deposits and prepayments	81,320	137,670	16,742	26,834
	<u>211,281</u>	<u>302,848</u>	<u>16,742</u>	<u>26,834</u>

The Group allows an average credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Within 90 days	92,394	135,860
Between 91 – 180 days	17,175	14,577
Between 181 – 365 days	8,428	8,850
Between 1 to 2 years	11,964	–
Over 2 years	–	5,891
	<u>129,961</u>	<u>165,178</u>

22. LOANS RECEIVABLE

The major shareholder, China Aerospace Science & Technology Corporation, has undertaken to guarantee the full recovery of all loans receivable of the Group.

23. PLEDGED BANK DEPOSITS

The amount of the Group represents bank deposits pledged for the Group's bank loans.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	324,449	406,099	–	–
Other payables and accruals	391,288	330,601	145,315	124,899
	<u>715,737</u>	<u>736,700</u>	<u>145,315</u>	<u>124,899</u>

The following is an aged analysis of trade payables at 31 December:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Within 90 days	135,238	164,614
Between 91 – 180 days	12,129	24,173
Between 181 – 365 days	3,034	53,249
Between 1 to 2 years	19,949	27,947
Over 2 years	154,099	136,116
	<u>324,449</u>	<u>406,099</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The Group				
Amounts payable under finance leases:				
Within one year	3,926	1,609	3,505	1,527
In the second to the fifth year inclusive	3,196	2,113	3,013	1,875
	<u>7,122</u>	<u>3,722</u>	<u>6,518</u>	<u>3,402</u>
Less: Future finance charges	(604)	(320)	–	–
Present value of lease obligations	<u>6,518</u>	<u>3,402</u>	<u>6,518</u>	<u>3,402</u>
Less: Amount due within one year			(3,505)	(1,527)
Amount due after one year			<u>3,013</u>	<u>1,875</u>

26. BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts and short term bank loans				
– secured	160,928	26,701	134,756	–
– unsecured	137,157	207,020	843	63,628
	<u>298,085</u>	<u>233,721</u>	<u>135,599</u>	<u>63,628</u>
Current portion of long term bank loans (note 28)	336,527	409,638	296,769	383,973
	<u>634,612</u>	<u>643,359</u>	<u>432,368</u>	<u>447,601</u>

27. OTHER LOANS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other loans are repayable:				
– within one year	–	105,250	–	58,450
– in the second to the fifth year inclusive	327,299	163,818	164,610	157,170
	327,299	269,068	164,610	215,620
Less: Amount due within one year shown under current liabilities	–	(105,250)	–	(58,450)
Amount due after one year	327,299	163,818	164,610	157,170
Other loans comprise:				
Loans from third parties (<i>note a</i>)	218,171	269,068	164,610	215,620
Guaranteed exchangeable fixed/floating rate notes (<i>note b</i>)	62,400	–	–	–
Guaranteed floating rate notes (<i>note c</i>)	46,728	–	–	–
	327,299	269,068	164,610	215,620

Notes:

- (a) Loans from third parties represent advances from independent third parties. The amounts are unsecured, bear interest at 4.25% or prime rate (2000: 7.5% – 9.5%) per annum and are repayable from 2003 to 2005.
- (b) During the year, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and will mature in March 2004. The notes are interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rate (for six-month US dollar deposits) thereafter. Unlisted investment securities with a carrying value of HK\$76,662,000 are pledged for the notes.
- (c) During the year, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and will mature in September 2004. The notes are interest bearing at 1.5% above London interbank offered rate. Listed investment securities with a carrying value of HK\$53,340,000 are pledged for the notes.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

28. BANK LOANS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable:				
– within one year	336,527	409,638	296,769	383,973
– in the second year	107,797	123,679	95,950	118,317
– in the third to fifth year inclusive	71,950	54,690	33,926	36,762
– after five years	88,868	146,025	61,631	113,066
	605,142	734,032	488,276	652,118
Less: Amount due within one year shown under current liabilities	(336,527)	(409,638)	(296,769)	(383,973)
Amount due after one year	268,615	324,394	191,507	268,145
Secured	501,342	249,682	384,476	183,348
Unsecured	103,800	484,350	103,800	468,770
	605,142	734,032	488,276	652,118

The Group's investment properties, land and buildings and bank deposits with aggregate net book value of HK\$70,322,000 (2000: HK\$85,890,000), HK\$151,702,000 (2000: HK\$263,596,000) and HK\$95,860,000 (2000: HK\$9,645,000), respectively, were pledged to banks. In addition, the Company's interest in a listed subsidiary of HK\$222,366,000 (2000: nil) were also pledged to banks.

29. SHARE CAPITAL

(a) Share capital

	2001		2000	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$1 each:				
Authorised:				
At 1 January and 31 December	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:				
At 1 January	<u>2,142,420</u>	<u>2,142,420</u>	<u>1,785,403</u>	<u>1,785,403</u>
Share placement (<i>note a</i>)	<u>–</u>	<u>–</u>	<u>357,017</u>	<u>357,017</u>
At 31 December	<u>2,142,420</u>	<u>2,142,420</u>	<u>2,142,420</u>	<u>2,142,420</u>

29. SHARE CAPITAL (continued)

Notes:

- (a) On 26 January 2000, Burhill Company Limited (the "Vendor") entered into a placing and underwriting agreement (the "Agreement") with ING Barings Asia Limited ("ING") whereby the Vendor had appointed ING as the placing agent and underwriter for the placing of 204,017,400 shares of HK\$1 each (the "Placing Share") in the capital of the Company at a price of HK\$1.8 per Placing Share to independent investors. In addition, the Vendor also granted ING an over-allocation option to require the Vendor to place on a fully underwritten basis an additional 21,373,200 existing shares at the same price (the "Over-allocation Option") on or before 4 February 2000. The Vendor had also agreed to subscribe (the "Subscription") for 357,017,400 new shares at a price per share equal to the placing price per share after adjusting for any expenses properly incurred in connection with the placing. The placing was completed on 28 January 2000 and the Over-allocation Option was fully exercised by ING on 31 January 2000. The Subscription was completed on 8 February 2000. These shares were issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 30 June 1999 and rank *pari passu* with the existing shares in all respects.

(b) **Share option scheme**

Under the terms of the share option scheme which became effective on 8 July 1997, the board of directors of the Company may offer to any full time employee of the Company, or any of its subsidiaries, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The purpose of the scheme is to recognise the contribution of employees of the Group. Consideration of HK\$1 is payable on each grant. The exercise price of the option will not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediate preceding the date of the grant of the options. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time.

No option under the scheme was granted or exercised during the year and no options were outstanding at 31 December 2001 and 31 December 2000.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

30. RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Special capital reserve (note a) HK\$'000	General reserve (note b) HK\$'000	Negative goodwill reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Group										
At 1 January 2000	664,570	116,163	14,044	23,916	347	-	(31,245)	1,080	(164,768)	624,107
Premium arising on placement of shares	285,614	-	-	-	-	-	-	-	-	285,614
Share issue expenses	(11,136)	-	-	-	-	-	-	-	-	(11,136)
Deficit on revaluation	-	(36,812)	-	-	-	-	-	-	-	(36,812)
Translation of accounts of overseas subsidiaries and associates	-	-	-	-	-	-	(8,625)	-	-	(8,625)
Goodwill on acquisition of subsidiary	-	-	-	-	-	(17,878)	-	-	-	(17,878)
Net loss for the year	-	-	-	-	-	-	-	-	(1,017,429)	(1,017,429)
At 31 December 2000	939,048	79,351	14,044	23,916	347	(17,878)	(39,870)	1,080	(1,182,197)	(182,159)
Eliminated on disposal of investment properties	-	(24,084)	-	-	-	-	-	-	-	(24,084)
Deficit on revaluation	-	(46,024)	-	-	-	-	-	-	-	(46,024)
Translation of accounts of overseas subsidiaries and associates	-	-	-	-	-	-	6,648	-	-	6,648
Net loss for the year	-	-	-	-	-	-	-	-	(736,311)	(736,311)
At 31 December 2001	<u>939,048</u>	<u>9,243</u>	<u>14,044</u>	<u>23,916</u>	<u>347</u>	<u>(17,878)</u>	<u>(33,222)</u>	<u>1,080</u>	<u>(1,918,508)</u>	<u>(981,930)</u>
Attributable to:										
The Company and subsidiaries	939,048	79,351	14,044	15,141	347	(17,878)	(38,478)	1,080	(1,125,904)	(133,249)
Associates	-	-	-	8,775	-	-	(1,392)	-	(56,293)	(48,910)
At 31 December 2000	<u>939,048</u>	<u>79,351</u>	<u>14,044</u>	<u>23,916</u>	<u>347</u>	<u>(17,878)</u>	<u>(39,870)</u>	<u>1,080</u>	<u>(1,182,197)</u>	<u>(182,159)</u>
Attributable to:										
The Company and subsidiaries	939,048	9,243	14,044	15,141	347	(17,878)	(32,982)	1,080	(1,861,349)	(933,306)
Associates	-	-	-	8,775	-	-	(240)	-	(57,159)	(48,624)
At 31 December 2001	<u>939,048</u>	<u>9,243</u>	<u>14,044</u>	<u>23,916</u>	<u>347</u>	<u>(17,878)</u>	<u>(33,222)</u>	<u>1,080</u>	<u>(1,918,508)</u>	<u>(981,930)</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

30. RESERVES (continued)

	Share premium HK\$'000	Special capital reserve (note a) HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company					
At 1 January 2000	664,570	84,656	1,080	(422,361)	327,945
Premium arising on placement of shares	285,614	–	–	–	285,614
Share issue expenses	(11,136)	–	–	–	(11,136)
Net loss for the year	–	–	–	(794,477)	(794,477)
At 31 December 2000	939,048	84,656	1,080	(1,216,838)	(192,054)
Net loss for the year	–	–	–	(783,641)	(783,641)
At 31 December 2001	<u>939,048</u>	<u>84,656</u>	<u>1,080</u>	<u>(2,000,479)</u>	<u>(975,695)</u>

- (a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 (the “effective date”), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve is part of the shareholders’ funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The Company had no reserve available for distribution as at 31 December 2001 (2000: nil).

□ **NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED) □

For the year ended 31 December 2001

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

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(865,480)	(1,062,984)
Depreciation	72,328	68,930
Amortisation of issuing expenses on borrowings	–	4,206
Amortisation of development costs	7,094	6,677
Amortisation of technology licence right	–	1,170
Write off of development costs	14,934	5,326
Interest expenses	112,603	130,238
Finance lease charges	530	711
Impairment loss recognised in respect of property, plant and equipment	232,712	–
Gain on disposal of property, plant and equipment	(195)	(136)
Gain on disposal of investment properties	(14,884)	–
Gain on disposal of subsidiaries and an associate	–	(54,366)
Impairment loss recognised in respect of interests in associates	470,116	44,000
Impairment loss recognised in respect of investment securities	–	583,215
Allowance for doubtful debts	19,800	98,222
Allowance for obsolete inventories	22,199	79,139
Share of results of associates	717	59,642
(Increase) decrease in inventories	(7,827)	32,860
Decrease (increase) in trade and other receivables	73,236	(3,305)
Decrease in amounts due from associates	3,247	59,670
Decrease in trade and other payables	(30,535)	(84,061)
(Decrease) increase in amounts due to associates	(8,721)	10,682
	<hr/>	<hr/>
Net cash inflow (outflow) from operating activities	<u>101,874</u>	<u>(20,164)</u>

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

32. ACQUISITION OF SUBSIDIARIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	–	8,408
Inventories	–	2,430
Trade and other receivables	–	1,061
Bank balances and cash	–	1,891
Trade and other payables	–	(3,531)
Minority interests	–	(4,017)
	<hr/>	<hr/>
	–	6,242
Goodwill	–	17,878
	<hr/>	<hr/>
Total consideration	<u>–</u>	<u>24,120</u>
Satisfied by:		
Bank balances and cash	–	21,000
12% share of equity interest of subsidiaries disposed of	–	3,120
	<hr/>	<hr/>
	<u>–</u>	<u>24,120</u>

Analysis of the net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration	–	21,000
Bank balances and cash acquired	–	(1,891)
	<hr/>	<hr/>
	<u>–</u>	<u>19,109</u>

The subsidiaries acquired in prior year did not contribute significantly to the Group's cash flows or operating results.

33. DISPOSAL OF SUBSIDIARIES

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	4,077
Inventories	–	1,734
Trade and other receivables	–	5,313
Bank balances and cash	–	570
Trade and other payables	–	(6,561)
Minority interests	–	(221)
	<u>–</u>	<u>–</u>
	–	4,912
Loss on disposal	–	(3,563)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>1,349</u>
Satisfied by:		
Bank balances and cash	–	1,349
	<u>–</u>	<u>1,349</u>

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	–	1,349
Bank balances and cash disposed of	–	(570)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>779</u>

The subsidiaries disposed of in prior year did not contribute significantly to the Group's cash flows or operating results.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>	Loans and finance lease obligations <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Amount due to a major shareholder <i>HK\$'000</i>
At 1 January 2000	2,449,973	1,944,940	153,736	266,330
Currency realignment	–	320	(605)	–
Non-cash transactions (<i>note 36</i>)	–	2,317	–	–
Cash inflow from financing	642,631	456,522	–	47,856
Share issue expenses	(11,136)	–	–	–
Cash outflow from financing	–	(1,254,368)	–	–
Disposal of subsidiaries	–	–	(221)	–
Amortisation of deferred expenditure on borrowings	–	4,206	–	–
Acquisition of subsidiaries	–	–	4,017	–
Minority interests arising upon deemed disposal of a subsidiary	–	–	71,917	–
Share of loss for the year	–	–	(54,421)	–
At 31 December 2000	3,081,468	1,153,937	174,423	314,186
Currency realignment	–	–	605	–
Non-cash transactions (<i>note 36</i>)	–	6,943	–	–
Contribution from minority shareholders	–	–	23,717	–
Cash inflow from financing	–	493,615	–	–
Cash outflow from financing	–	(497,464)	–	(2,836)
Share of loss for the year	–	–	(129,835)	–
At 31 December 2001	<u>3,081,468</u>	<u>1,157,031</u>	<u>68,910</u>	<u>311,350</u>

35. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash	271,989	359,669
Bank loans and overdrafts	(80,013)	(86,286)
	<u>191,976</u>	<u>273,383</u>

36. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$6,943,000 (2000: HK\$2,317,000).

37. DEFERRED TAXATION

At the balance sheet date, the major components of deferred taxation (assets) liabilities which have not been recognised or provided are as follows:

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	20,559	19,364	24,998	25,321
Unrelieved tax losses	(192,487)	(186,412)	(19,424)	(39,285)
Other timing differences	(29,534)	(45,546)	(398)	(398)
	<u>(201,462)</u>	<u>(212,594)</u>	<u>5,176</u>	<u>(14,362)</u>

A net deferred tax asset has not been recognised in the financial statements as it is not certain that the timing differences will be utilised in the foreseeable future.

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

37. DEFERRED TAXATION (continued)

No provision for deferred taxation has been recognised in the Company's financial statements in respect of timing differences arising during the year as it is not expected that the potential deferred taxation liability will reverse in the foreseeable future, after taking into account the Company's medium-term financial plans and projections.

The amount of unprovided deferred taxation (credit) charge for the year are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference of tax allowances and depreciation	1,195	3,364
(Unrelieved) utilised tax losses	(6,075)	16,588
Other timing differences	16,012	(33,546)
	<u>11,132</u>	<u>(13,594)</u>

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of the Group's investment properties as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

38. CONTINGENT LIABILITIES

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking and finance facilities granted to:				
– subsidiaries	–	–	687,160	841,992
– third parties	4,450	8,000	4,450	8,000
Guarantees given for fixed floating rate notes issued by subsidiaries	–	–	109,032	–
	<u>4,450</u>	<u>8,000</u>	<u>800,642</u>	<u>849,992</u>

39. CAPITAL COMMITMENTS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– capital contribution to investee companies	7,751	17,613	7,751	110
– purchase of property, plant and equipment	11,606	4,312	–	–
– properties under development	9,097	18,090	3,730	3,730
– others	–	107	–	107
	<u>28,454</u>	<u>40,122</u>	<u>11,481</u>	<u>3,947</u>

40. OPERATING LEASE COMMITMENTS

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

	2001	2000
	HK\$'000	HK\$'000
Within one year	4,915	4,719
In the second to fifth year inclusive	4,541	10,475
	<u>9,456</u>	<u>15,194</u>

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated for an average term of one to two years.

At 31 December 2001, the Company had no commitments under non-cancellable operating leases (2000: nil).

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

40. OPERATING LEASE COMMITMENTS (continued)

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	14,988	16,266
In the second to fifth year inclusive	6,492	8,707
After five years	–	69
	<u>21,480</u>	<u>25,042</u>

41. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
A substantial shareholder of a non wholly-owned subsidiary:		
– Sales thereto (note a)	3,935	4,393
– Purchase therefrom (note a)	343	1,659
– Subcontracting income received (note a)	5,664	5,624
Associates of the Group:		
– Sales thereto (note a)	3,267	–
– Purchase therefrom (note a)	9,535	–
– Subcontracting charges paid (note a)	3,198	7,793
– Rental of machinery and equipment paid (note b)	–	3,694
A non-executive director of the Company:		
– Sale of a residential property to Mr. Shen Dabin and his associate (note c)	<u>1,040</u>	<u>–</u>

41. RELATED PARTY TRANSACTIONS *(continued)*

- (a) The transactions amounts were determined on a cost plus basis.
- (b) Rental of machinery and equipment paid to related party was comparable to rents for similar machinery and equipment by other parties.
- (c) The purchase consideration was agreed after arm's length negotiation on terms with reference to comparable properties.
- (d) Amounts due from or to associates and amount due to a major shareholder are unsecured, non-interest bearing and with no fixed repayment terms.

In addition, at 31 December 2001, the Group had an outstanding loan amounting to US\$8,000,000 (approximately HK\$62,400,000) (2000: outstanding loans in the aggregate amount of US\$37,000,000 (approximately HK\$288,600,000)) from certain financial institutions. These loan agreements contain a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, will maintain a minimum percentage of shareholding (in most of the cases, minimum of 40%) of the Company, the breach of which would constitute an event of default on the related loan facilities.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
Incorporated and operating in Hong Kong:					
CASIL Clearing Limited	HK\$10,000,000	100	–	100	Provision of treasury services
CASIL Development Limited	HK\$1,000,000	–	100	100	Property development and investment

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
CASIL Electronic Products Limited	HK\$15,000,000	100	–	100	Distribution of electronic products
CASIL Global Development Limited	HK\$100	100	–	100	General trading
CASTEL Broadband Limited	HK\$10,000	–	100	51	Broadband business
CASTEL Broadband (Hong Kong) Limited	HK\$10,000	–	100	100	Broadband business
CASTEL Qihua Hi-Tech Investments Limited	HK\$8,000,000	–	100	45	Investment holding
CASTEL Intelligent Transportation System Limited	HK\$11,600,000	–	100	45	Intelligent transportation system business
CASIL Lands Limited	HK\$10,000	–	100	100	Property investment
CASIL Network System Engineering Limited	HK\$2	100	–	100	Investment holding
CASIL (Nominees) Limited	HK\$2	100	–	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK\$3,000,000	–	100	100	Distribution of optoelectronic products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
CASIL Properties Limited	HK\$10,000	100	–	100	Property investment
CASIL Realty Limited	HK\$200	100	–	100	Property investment and management
CASIL Research and Development Company Limited	HK\$8,000,000	100	–	100	Research, development and trading of electronic products
CASIL Satellite Holdings Limited	HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each)	–	100	100	Investment holding
CASIL Semiconductor Limited	HK\$15,000,000	100	–	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK\$20,000,000	100	–	100	Distribution of plastic products and moulds
Fakin Trading Company Limited	HK\$500,000	100	–	100	General trading
Far East United Electronics Limited	HK\$10,000,000	100	–	100	Property investment

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
Hong Yuen Electronics Limited	HK\$5,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Hung Nien Electronics Limited	HK\$30,001,000 (300,000 deferred shares and 10 ordinary shares)	–	100	51	Manufacturing and distribution of telecommunication products
Jeckson Electric Company Limited	HK\$5,000,000	100	–	100	Manufacturing and distribution of electronic components
Jeckwell International Trading Company Limited	HK\$800,000	100	–	100	General trading
Magicsound Company Limited	HK\$10,000	–	100	51	Property investment
Merrycity Company Limited	HK\$380,000	–	100	100	Property investment
Sure Full Investments Limited	HK\$2	100	–	100	Property investment
Well Horn Company Limited	HK\$2	–	100	100	Property investment

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
Worldwide Polyfoam & Engineering Limited	HK\$3,000,000	100	–	100	General trading
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Astrotech Group Limited	US\$1	100	–	100	Investment holding
Sinolike Investments Limited	US\$1	100	–	100	Investment holding
Incorporated in the Cayman Islands and operating in Hong Kong:					
CASIL Telecommunications Holdings Limited	HK\$87,713,976	–	51	51	Investment holding
Incorporated and operating in France:					
CXSAT	FRF250,000	–	51	51	Manufacturing and sale of digital TV equipment
Registered and operating in the PRC:					
Aerospace Technology (China) Company Limited	US\$5,000,000*	100	–	100	Manufacturing of telecommunication products

□ NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) □

For the year ended 31 December 2001

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
CASIL Science and Technology Development (Shenzhen) Company Limited	US\$1,500,000*	100	–	100	Design and distribution of integrated circuits and intelligent automation systems
CASIL Telecommunication (Shenzhen) Company Limited	HK\$5,000,000*	–	100	45	Manufacturing and selling of telecommunications products
Chee Yuen Plastic Products (Huizhou) Company Limited	RMB26,761,000*	–	100	100	Manufacturing of plastic products and moulds
China Aerospace (Huizhou) Industrial Garden Limited	US\$12,000,000*	90	–	90	Property development
Conhui (Huizhou) Electronics Company Limited	RMB131,831,747*	–	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited	RMB31,229,651*	–	100	100	Manufacturing of liquid crystal displays
Conhui (Huizhou) Worldwide Polyfoam Limited	RMB3,728,813*	–	100	100	Manufacturing of polyfoam products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
Huizhou Jeckson Electric Company Limited	US\$1,000,000*	–	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited	US\$400,000*	–	90	90	Manufacturing of electronics and plastic products
Junhan Electronics (Shenzhen) Company Limited	HK\$3,000,000*	–	100	100	Manufacturing and distribution of optoelectronic products
Qinhuangdao Hungnic Electronics Company Limited	US\$3,538,000*	–	51	26	Manufacturing of telecommunication products
Shenzhen Chee Yuen Plastics Company Limited	RMB22,000,000*	–	80	80	Manufacturing of plastic products
惠州市海燕賓館有限公司	RMB7,700,000*	–	51	46	Hotel operation
唐山奇華衛星定位有限公司	RMB1,280,000*	–	51	23	Intelligent transportation system business
北京奇華通訊有限公司	RMB1,239,000*	–	78	35	Intelligent transportation system business

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or 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 (CONTINUED) □

For the year ended 31 December 2001

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Aircar Assets Limited	US\$10,000	–	47	47	Investment holding
Registered and operating in the PRC:					
Beijing Aerospace Sat-Way Information System Company Limited	US\$6,000,000*	30	–	30	Manufacturing of telecommunication products
Guizhou Huahang Automotive Manufacturing Company Limited	US\$55,680,000*	–	–	45	Assembly of light vehicles
Jiangsu CASIL Broadcasting & Cable TV Network Company Limited	RMB64,000,000*	–	49	49	Broadcasting business
Shandong Kongwei Electronics Limited	US\$2,741,800*	–	46	23	Manufacturing of telecommunication products
Southern Telecommunication Development Company Limited	US\$8,400,000*	–	41	21	Manufacturing and selling of telecommunication products

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.