(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKSE"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain non-trading securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the jointly controlled entities for the year, including any amortisation of positive goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

In respect of acquisitions of jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(h)) is included in the carrying amount of the interest in jointly controlled entities.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill *(continued)*

On disposal of a controlled subsidiary or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account is included in the calculation of the profit or loss on disposal.

(f) Investments in securities

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

(ii) Non-trading investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.

(iii) Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(g) Convertible loan

Convertible loan represents loan principal outstanding together with accrued interest less any provisions considered necessary by the directors.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries and jointly controlled entities may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(i) Revenue recognition

Interest income

Interest income from bank deposits, debt securities and convertible loan is accrued on a time-apportioned basis by reference to the principal outstanding and at the applicable rates of interest.

Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(j) Legal and establishment fees

Legal and establishment fees relating to the convertible loan granted is amortised to the profit and loss account over a period of three years.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The financial statements of subsidiaries and jointly controlled entities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereon are dealt with as movements in reserves.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses.

2 TURNOVER

The principal activity of the Company and of its subsidiaries is the holding of equity investments and convertible loan primarily in companies or entities with significant business interests or involvement in the People's Republic of China ("the PRC"). In particular, the Group focused on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC including Hong Kong.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

Group turnover represents interest income earned on fixed deposits, debt securities and convertible loan. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2001	2000
Interest income from deposits with banks and other financial institutions	**$ 1,073,971**	$ 1,898,488
Interest income from listed securities	**—**	397,715
Interest income from convertible loan	**—**	10,120,497
	$ 1,073,971	$ 12,416,700

(Expressed in Hong Kong dollars)

3 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments which are based on the nature of business of its jointly controlled entities and investee companies. No geographical segment information is presented as the revenue of the Group and its jointly controlled entities and the Group's results were substantially derived from Mainland China.

The Group's jointly controlled entities and investee companies comprise the following main business segments:

Manufacture of industrial products: Electronic and electrical instruments, plywood and timber products.

Manufacture of consumer products: Audio-visual products and ceramic tiles.

Communications: Provision of paging, internet content, software and solutions and paid e-mail services and offline magazine publishing.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results, assets and liabilities include only those relating to the Group.

	Segment revenue		**Segment results**	
	Group and share of jointly controlled entities' turnover		**Contribution to loss from ordinary activities before taxation**	
	2001	2000	**2001**	2000
Manufacture of industrial products	**$ 94,447,980**	$ 128,827,313	**$ (20,622,647)**	$ (7,430,266)
Manufacture of consumer products	**—**	10,120,497	**(97,474,074)**	6,487,415
Communications	**—**	—	**(83,214,030)**	(33,959,041)
Unallocated	**1,073,971**	2,296,203	**(6,570,374)**	(3,340,119)
	$ 95,521,951	$ 141,244,013	**$ (207,881,125)**	$ (38,242,011)

(Expressed in Hong Kong dollars)

3 SEGMENTAL INFORMATION *(continued)*

	Segment assets		Segment liabilities	
	2001	2000	**2001**	2000
Manufacture of industrial products	**$ 27,008,268**	$ 45,081,132	**$ —**	$ —
Manufacture of consumer products	**94,796,740**	128,807,547	**—**	—
Communications	**36,357,021**	116,963,648	**—**	—
Unallocated	**20,475,861**	34,036,882	**(7,298,788)**	(7,269,875)
	$ 178,637,890	$ 324,889,209	**$ (7,298,788)**	$ (7,269,875)

	Amortisation		Impairment loss/ provision		Capital expenditure incurred	
	2001	2000	**2001**	2000	**2001**	2000
Manufacture of industrial products	**$ —**	$ —	**$ 19,197,572**	$ —	**$ —**	$ —
Manufacture of consumer products	**—**	207,124	**94,550,139**	—	**—**	—
Communications	**—**	—	**80,632,624**	30,747,825	**—**	86,215,823
	$ —	$ 207,124	**$194,380,335**	$ 30,747,825	**$ —**	$ 86,215,823

4 OPERATING LOSS

(a) Other net (loss)/income:

	2001	2000
Net realised and unrealised gains on listed trading securities carried at fair value	**$ —**	$ 422,010
Net exchange (loss)/gain	**(7,240)**	367,831
	$ (7,240)	$ 789,841

(Expressed in Hong Kong dollars)

4 OPERATING LOSS *(continued)*

(b) Operating expenses:

		2001		2000
Administrative fee	**$**	**690,000**	$	690,000
Amortisation of legal and establishment fees		**—**		207,124
Auditors' remuneration		**550,000**		592,000
Consultancy fee		**371,132**		461,143
Custodian fee		**240,000**		240,000
Legal and secretarial fees		**1,631,015**		639,393
Management fee		**7,422,639**		9,222,858
Project fee		**672,010**		735,657
Other operating expenses		**3,991,201**		3,393,032
	$	**15,567,997**	$	16,181,207

5 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

		2001		2000
Provision for Hong Kong profits tax for the year	**$**	**—**	$	5,000,000
Over-provision in respect of prior years		**(786,532)**		—
	$	**(786,532)**	$	5,000,000
Share of jointly controlled entities' taxation		**62,543**		64,010
	$	**(723,989)**	$	5,064,010

No provision for Hong Kong profits tax has been made for the year ended 31 December 2001 as the Group has no assessable profits for the year.

The provision for Hong Kong profits tax for the year ended 31 December 2000 was calculated at 16% of the estimated assessable profits.

(Expressed in Hong Kong dollars)

5 TAXATION *(continued)*

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	2001	2000	**2001**	2000
Provision for Hong Kong profits tax for the year	**$ —**	$ 5,000,000	**$ —**	$ —
Balance of provision for Hong Kong profits tax relating to prior years	**5,000,000**	216,137	**—**	216,137
	$ 5,000,000	$ 5,216,137	**$ —**	$ 216,137

(c) No provision for deferred tax has been made as the net effect of all timing differences is immaterial.

6 DIRECTORS' REMUNERATION

(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
Fees	**$ 160,000**	$ 150,000
Salaries and other emoluments	**660,000**	660,000
	$ 820,000	$ 810,000

No remuneration was paid to the non-executive directors of the Company.

The remuneration of each of the directors is within the band of $Nil — $1,000,000.

(b) Individuals with highest emoluments

The five highest paid individuals are all executive directors of the Group whose emoluments have been disclosed in note (a) above.

(Expressed in Hong Kong dollars)

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $234,585,828 (2000 (restated): $43,412,358) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2001	2000
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	**$ (234,585,828)**	$ (43,412,358)
Final dividends from subsidiaries attributable to the previous financial year, approved and paid during the year	**4,886,405**	12,623,293
	$ (229,699,423)	$ (30,789,065)

8 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on loss attributable to shareholders of $207,157,136 (2000: loss of $43,306,021) and the weighted average number of 538,945,041 (2000: 518,834,740) ordinary shares in issue during the year.

(b) Diluted

Diluted earnings per share is not shown for the year ended 31 December 2001 as the potential ordinary shares were anti-dilutive. There were no potential ordinary shares during the year ended 31 December 2000.

9 CHANGE IN ACCOUNTING POLICY

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Company recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and jointly controlled entities are recognised as income in the Company's profit and loss account in the accounting period in which they are declared.

(Expressed in Hong Kong dollars)

9 CHANGE IN ACCOUNTING POLICY *(continued)*

As a result of the new accounting policy, the Company's loss for the year and net assets as at the year end have been decreased by $4,886,405 and $Nil respectively (2000: $7,736,888 and $4,886,405 respectively). The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and comparative information adjusted for the amounts relating to prior periods.

This change in accounting policy has no impact on the Group's results for the years presented or on the Group's net assets at 31 December 2000 and 2001.

10 INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
Unlisted shares, at cost	**$ 68**	$ 61
Amounts due from subsidiaries, net of provisions	**177,580,160**	393,937,272
Amounts due to subsidiaries	**(12)**	(4)
	$ 177,580,216	$ 393,937,329

The amounts due from subsidiaries comprise mainly advances to subsidiaries for investments in entities in the PRC including Hong Kong.

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

(Expressed in Hong Kong dollars)

10 INTEREST IN SUBSIDIARIES *(continued)*

The following wholly owned subsidiaries are all private limited companies, incorporated in the British Virgin Islands and are intermediate investment holding companies:

Name of Company	**Issued and paid up capital held by the Company**
Ever Talent Investments Ltd.	1 share of US$1
Kencheers Investments Ltd.	1 share of US$1
Joint Cheer Investments Ltd.	1 share of US$1
Pacific Advance Medical Instruments Inc.	1 share of HK$1
Pacific Electronics Development Inc.	1 share of HK$1
Pacific Equity Venture Inc.	1 share of HK$1
Pacific Food & Beverages Inc.	1 share of HK$1
Pacific Investment Project Inc.	1 share of HK$1
Pacific Venture Development Inc.	1 share of HK$1
Simonson International Development Ltd.	1 share of US$1
Motion Technology Ltd.	1 share of US$1
Hidden Advantage Investments Ltd.	1 share of US$1
Mobile Office Investments Ltd.	1 share of US$1
Lens Co. Ltd.	1 share of US$1

11 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2001	2000
Share of net assets	**$ 26,072,341**	$ 24,947,633
Amounts due from jointly controlled entities, net of provision	**935,927**	20,133,499
	$ 27,008,268	$ 45,081,132

11 INTEREST IN JOINTLY CONTROLLED ENTITIES *(continued)*

Amounts due from jointly controlled entities ("JCE") are unsecured, interest free and have no fixed terms of repayment. A full provision of $19,197,572 has been made against the amount due from a jointly controlled entity during the year as it is unlikely to be recovered.

Additional information in respect of the Group's JCE, excluding that relating to Beijing North Star Hyundai Pipe Company Limited which has been fully provided in the 1998 financial statements, is given as follows:

	2001	2000
	$'000	*$'000*
Current assets	**298,633**	334,938
Long-term assets	**313,838**	351,730
Current liabilities	**544,311**	612,697
Long-term liabilities	**54,237**	6,904
Total turnover	**366,609**	525,139
Total losses before taxation	**(47,952)**	(22,313)
Total profits before taxation	**2,859**	—
Group's share of profits/(losses) before taxation	**1,000**	(4,519)
Group's share of JCE's contingent liabilities	**—**	12,361
Group's share of JCE's capital commitments	**—**	731

Details of the indirectly held jointly controlled entities, all of which are sino-foreign joint venture companies incorporated and operating in the PRC, are as follows:

Name of joint venture	**Proportion of ownership interest attributable to the Group**	**Registered capital**	**Principal activities**
Beijing Far East Instrument Company Limited	35%	RMB151,926,184	Electronic and electrical instrument manufacturing
Beijing North Star Hyundai Pipe Company Limited	28%	US$11,300,000	Pipe manufacturing
Everbright Timber Industry (Shenzhen) Company Limited	22.87%	US$45,525,860	Production and sale of plywood products and other timber boards

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS

		The Group	
		2001	2000
Investment in unlisted joint venture	*(a)*	**$ 12,299,130**	$ 30,747,825
Investment in unlisted companies	*(b)*	**24,057,891**	86,215,823
Listed investments	*(c)*	**47,296,740**	31,925,300
		$ 83,653,761	$ 148,888,948

Details of the Group's non-trading investments are as follows:

Name of the company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest attributable to the Group	Principal activity
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	PRC	PRC	Registered capital of US$29,800,000	18%	Provision of paging services
Skynet Limited	Hong Kong	Hong Kong	20,476,233 ordinary shares of $1 each	5.33%	Internet content provider
			671,651 preference shares of $0.10 each	—	
ChinaGo Limited	Cayman Islands	PRC	5,611,110 ordinary shares of US$0.01 each	10.44%	Offline magazine publishing, software and solutions, and paid e-mail services
Skyworth Digital Holdings Limited	Hong Kong	PRC	2,050,000,000 ordinary shares of $0.20 each	5.016%	Manufacture and sale of audio-visual products

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(continued)*

Impairment losses on non-trading investments included in the consolidated profit and loss account are analysed as follows:

		2001	2000
Beijing Asia Pacific First Star Communications Technology Co. Ltd	*(a)*	**$ 18,448,695**	$ 30,747,825
Skynet Limited	*(b)*	**62,183,929**	—
Skyworth Digital Holdings Limited	*(c)*	**45,167,892**	—
		$ 125,800,516	$ 30,747,825

(a) This represents the Group's investment in an unlisted joint venture, Beijing Asia Pacific First Star Communications Technology Co. Ltd. ("APFS"). The cost of investment is approximately $60.8 million (being the equivalent of US$7.8 million) representing capital contribution for an 18 per cent equity interest in APFS and consideration for a technology co-operation agreement with one of the joint venture partners, together with the capitalised acquisition costs. The other joint venture partners are Singapore Telecom International Pte. Ltd., Beijing Jingfang Economy Development Company and Beijing Asia Pacific Group. This joint venture is being accounted for as a non-trading investment as the Group does not have significant influence or joint control over its operations. An impairment loss of $30.7 million was made at 31 December 2000. In view of the continuing losses incurred by APFS, the directors consider that the fair value of this investment should be further written down by $18,448,695 which has been recognised as an impairment loss in the consolidated profit and loss account for the year.

(b) This represents the Group's investments of approximately $23 million (being equivalent of US$2.9 million) and $62 million (being equivalent of US$8 million) in ChinaGo Limited and Skynet Limited ("Skynet"), in which the Group holds an equity interest of 10.44% and 5.33% respectively, together with the capitalised acquisition costs.

Subsequent to the balance sheet date, the Group's entire interest in Skynet Limited was sold to an independent third party for a consideration of $0.5 million, details of which are set out in note 18. Consequently, the directors consider that the fair value of this investment should be written down to $0.5 million and an impairment loss of $62,183,929 has been recognised in the consolidated profit and loss account for the year.

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(continued)*

(c) In May 1999, the Group invested approximately $92 million (being the equivalent of US$11 million) in 2,577,502 convertible redeemable shares of an unlisted company, Skyworth (Group) Company Limited ("Skyworth Group"), including capitalised acquisition costs. For the purpose of seeking a listing on the HKSE, Skyworth Group underwent a reorganisation on 27 March 2000 and Skyworth Digital Holdings Limited ("Skyworth Digital") became the holding company of Skyworth Group. The convertible redeemable shares held by the Group were converted to 102,819,000 ordinary shares of Skyworth Digital, representing approximately 5.016% of its issued share capital following the listing of its shares on the HKSE on 7 April 2000. As at 31 December 2001, the investment was stated at its market value of $0.46 per share and a revaluation surplus of $15,371,440 has been transferred to the investment revaluation reserve during the year. The directors are of the opinion that the investment was impaired at 31 December 2001 and accordingly, the cumulative revaluation deficit of $45,167,892 has been transferred from the investment revaluation reserve to the consolidated profit and loss account for the year. Subsequent to the balance sheet date, 30,000,000 ordinary shares of Skyworth Digital were sold for a total consideration of $15 million, details of which are set out in note 18.

13 CONVERTIBLE LOAN

	The Group	
	2001	2000
Convertible loan	**$ 92,399,277**	$ 92,399,277
Interest receivable	**4,482,970**	4,482,970
	$ 96,882,247	$ 96,882,247
Less: Provision	**(49,382,247)**	—
	$ 47,500,000	$ 96,882,247

The convertible loan is repayable as follows:

	2001	2000
Within one year	**$ 47,500,000**	$ 54,011,776
After one year but within two years	**—**	42,870,471
	$ 47,500,000	$ 96,882,247

(Expressed in Hong Kong dollars)

13 CONVERTIBLE LOAN *(continued)*

The convertible loan represents a loan of US$12 million (approximately $93 million) advanced to Companion-China Limited ("CC"), a subsidiary of Companion Building Material International Holdings Limited, a company listed on the HKSE, less repayment to date. The loan is interest bearing at 9.8 per cent per annum, compounded annually.

In January 2001, the Group issued a repayment notice to CC to demand for full settlement. According to the notice, the first instalment in the amount of US$6,924,853 was due for repayment on 1 May 2001 and the remaining portion of the loan plus accrued interest was due for repayment on or before 1 May 2002. CC failed to repay the first instalment due on May 2001.

In February 2002, the Group reached an agreement with an independent third party to dispose of its entire interest in the convertible loan for a consideration of $47.5 million, details of which are set out in note 18. A provision of $49,382,247 has been made at 31 December 2001 to reflect the recoverable value of the convertible loan.

14 SHARE CAPITAL

	2001 No. of shares	**2001** Amount	2000 No. of shares	2000 Amount
Authorised:				
Ordinary shares of $0.10 each	**1,200,000,000**	**$120,000,000**	800,000,000	$ 80,000,000
Issued and fully paid:				
At 1 January	**538,840,000**	**$ 53,884,000**	500,000,000	$ 50,000,000
New shares issued	**—**	**—**	38,840,000	3,884,000
Exercise of warrants	**672,000**	**67,200**	—	—
At 31 December	**539,512,000**	**$ 53,951,200**	538,840,000	$ 53,884,000

(i) By an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, the Company's authorised share capital was increased to $120,000,000 by the creation of an additional 400,000,000 ordinary shares of $0.10 each, ranking pari passu with the existing shares of the Company.

(Expressed in Hong Kong dollars)

14 SHARE CAPITAL *(continued)*

(ii) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, 107,768,000 warrants in the proportion of one warrant for every five existing shares held on 16 August 2001 were issued by the Company. The warrants may be converted into shares of $0.10 each at the initial subscription price of $0.2244 per share at any time from 16 August 2001 to 15 August 2003, both dates inclusive. During the period from 16 August 2001 to 31 December 2001, 672,000 warrants were converted into ordinary shares at the subscription price of $0.2244 per share. As a result, cash of $150,797 was received by the Company and additional 672,000 new shares were issued. At 31 December 2001, the market value of the warrant was $0.09 each.

(iii) The Company has set up a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares in the Company. The subscription price will be the higher of:

(a) the closing price of the shares of the Company as stated in the HKSE's daily quotation sheet on the date of grant (being a business day), and

(b) the average closing price of the shares of the Company as stated in the HKSE's daily quotations sheets for the five business days immediately preceding the date of grant.

During the year, the Company has granted a number of options under the share option scheme as follows:

Date options granted	Period during which options exercisable	Number of options granted and outstanding at 31 December 2001
27 November 2001	28 May 2002 to 27 November 2004	21,555,600
11 December 2001	28 May 2002 to 27 November 2004	2,694,450
12 December 2001	28 May 2002 to 27 November 2004	2,694,450

There were no options exercised during the year.

(Expressed in Hong Kong dollars)

15 RESERVES

(a) The Group

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2001	$ 498,013,818	$ 3,049,510	$ (60,539,332)	$ (176,788,662)	$ 263,735,334
Loss for the year	—	—	—	(207,157,136)	(207,157,136)
Exchange differences on translation of financial statements of PRC jointly controlled entities	—	186,775	—	—	186,775
Shares issued from exercise of warrants, net of expenses	83,597	—	—	—	83,597
Net deficit on revaluation of non-trading investments	—	—	(65,261,184)	—	(65,261,184)
Transfer to profit and loss account	—	—	125,800,516	—	125,800,516
At 31 December 2001	$ 498,097,415	$ 3,236,285	$ —	$ (383,945,798)	$ 117,387,902
At 1 January 2000	$ 470,853,006	$ 3,008,558	$ —	$ (133,482,641)	$ 340,378,923
Loss for the year	—	—	—	(43,306,021)	(43,306,021)
Exchange differences on translation of financial statements of PRC jointly controlled entities	—	40,952	—	—	40,952
Issue of shares, net of expenses	27,160,812	—	—	—	27,160,812
Deficit on revaluation of non-trading investments	—	—	(91,287,157)	—	(91,287,157)
Transfer to profit and loss account	—	—	30,747,825	—	30,747,825
At 31 December 2000	$ 498,013,818	$ 3,049,510	$ (60,539,332)	$ (176,788,662)	$ 263,735,334

The Group's accumulated losses include losses of $164,156,071 (2000: losses of $165,094,004) attributable to jointly controlled entities of which profits of $937,933 (2000: losses of $4,583,530) represent the amount retained for the year.

(Expressed in Hong Kong dollars)

15 RESERVES *(continued)*

(b) The Company

	Share premium	Accumulated losses	Total
At 1 January 2001			
— as previously reported	$ 498,013,818	$ (121,294,171)	$ 376,719,647
— prior period adjustment in respect of dividend income from subsidiaries *(note 9)*	—	(4,886,405)	(4,886,405)
— as restated	$ 498,013,818	$ (126,180,576)	$ 371,833,242
Loss for the year	—	(229,699,423)	(229,699,423)
Shares issued from exercise of warrants, net of expenses	83,597	—	83,597
At 31 December 2001	$ 498,097,415	$ (355,879,999)	$ 142,217,416
At 1 January 2000			
— as previously reported	$ 470,853,006	$ (82,768,218)	$ 388,084,788
— prior period adjustment in respect of dividend income from subsidiaries *(note 9)*	—	(12,623,293)	(12,623,293)
— as restated	$ 470,853,006	$ (95,391,511)	$ 375,461,495
Loss for the year (restated)	—	(30,789,065)	(30,789,065)
Issue of shares, net of expenses	27,160,812	—	27,160,812
At 31 December 2000	$ 498,013,818	$ (126,180,576)	$ 371,833,242

The application of the share premium is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange reserves and investment revaluation reserves have been set up and dealt with in accordance with the accounting policies adopted for the translation of foreign currencies and revaluation of investments in securities respectively.

The aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2001 was $Nil (2000: $Nil).

(Expressed in Hong Kong dollars)

16 NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of $171,339,102 (2000: $317,619,334) and 539,512,000 shares (2000: 538,840,000 shares) in issue as at 31 December 2001.

17 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operations to net cash (outflow)/inflow from operating activities

	2001	2000
Loss from operations	**$ (208,881,601)**	$ (33,722,491)
Interest income	**(1,073,971)**	(12,416,700)
Amortisation of legal and establishment fees	**—**	207,124
Provision for amount due from jointly controlled entity	**19,197,572**	—
Impairment losses on non-trading investments	**125,800,516**	30,747,825
Provision for convertible loan	**49,382,247**	—
Decrease in trading securities	**—**	20,385,178
Decrease/(increase) in other receivables, prepayments and interest receivable	**186,320**	(204,325)
Increase in other payables and accruals	**488,265**	383,903
Net cash (outflow)/inflow from operating activities	**$ (14,900,652)**	$ 5,380,514

(b) Analysis of the balances of cash and cash equivalents

	2001	2000
Fixed deposits with banks and other financial institutions maturing within three months	**$ 19,479,626**	$ 33,319,348
Cash at banks	**902,238**	381,797
Bank overdrafts	**—**	(243,215)
	$ 20,381,864	$ 33,457,930

(Expressed in Hong Kong dollars)

17 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Analysis of changes in financing during the year

	Share capital and premium
At 1 January 2000	$ 520,853,006
New shares issued (note (d))	31,072,000
Expenses on issue of shares	(27,188)
At 31 December 2000	$ 551,897,818
At 1 January 2001	$ 551,897,818
Shares issued from exercise of warrants	150,797
At 31 December 2001	$ 552,048,615

(d) Material non-cash item

There were no material non-cash items during the year. In 2000, the consideration for the acquisition of 5.33% equity interest in Skynet Limited was partially satisfied by the issue of 38,840,000 shares of $0.10 each of the Company at a price of $0.80.

18 POST BALANCE SHEET EVENTS

(i) Pursuant to a subscription agreement dated 28 January 2002, the Company agreed to place 107,768,000 new shares to an independent third party at a price of $0.22 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment is scheduled to take place in July 2002.

(ii) On 18 February 2002, the Company entered into a sales and purchase agreement with a subsidiary of New World Enterprises Holdings Limited pursuant to which, the Company agreed to sell its entire interest in a wholly owned subsidiary, Perfect Master Limited ("PML") together with the shareholder's loan due by PML to the Company for a cash consideration of $47.5 million. PML was incorporated in early February 2002 to hold the convertible loan advanced to CC transferred from a fellow subsidiary at cost. The transaction was completed in March 2002.

18 POST BALANCE SHEET EVENTS *(continued)*

(iii) On 18 February 2002, the Company entered into a sales and purchase agreement with Wellington Equities Inc. pursuant to which, the Company agreed to sell its entire interest in a wholly owned subsidiary, Hidden Advantage Investments Limited ("HAIL") together with the shareholder's loan due by HAIL to the Company for a cash consideration of $0.5 million. The sole asset of HAIL is a 5.33% equity interest in Skynet Limited, an internet content provider. The transaction was completed in March 2002.

(iv) In March 2002, the Group entered into two separate co-operation agreements with certain parties in the PRC to form two joint ventures to develop two property projects in Beijing, the PRC. One of the projects is development of residential properties and the other is a golf community. The Group's total initial cost of investment in these two projects is Rmb82.7 million (equivalent to $78 million) to be settled in three months after the issue of the business licences of the joint ventures. The Group's attributable interest in each of the two joint ventures is 30%. The Group has an option to further invest Rmb97 million and Rmb34.7 million (equivalent to $91.7 million and $32.8 million respectively) in the golf community and residential property projects respectively.

(v) In March 2002, the Group disposed of 30,000,000 ordinary shares in Skyworth Digital at a price of $0.5 each for a total consideration of $15 million.

(vi) In March 2002, the Group entered into a conditional agreement with Beijing Capital Group Limited pursuant to which, the Group agreed to sell its 9% equity interest in Beijing Far East Instrument Company Limited ("Far East") for a consideration of approximately Rmb14 million (equivalent to $13 million). The consideration is payable over a period of 5 years in 5 yearly instalments.

19 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy in respect of dividend income from subsidiaries, details of which are set out in note 9 on the financial statements.