

*For the Year Ended 31st December, 2001*

## 1. GENERAL

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

The Company acts as an investment holding company and provides corporate management services. Details of the activities of its principal subsidiaries are set out in note 15.

## 2. ADOPTION OF 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 ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised Standards has not resulted in any major changes to the Group's accounting policies that have affected the amounts 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 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 31st December each year.

The results of subsidiaries and associates which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

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

For the Year Ended 31st December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill (continued)

Goodwill arising on the acquisition of jointly controlled entities or associates is included within the carrying amount of jointly controlled entities or associates. Goodwill arising on the acquisition of consolidated subsidiaries is presented separately in the balance sheet.

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

#### Revenue recognition

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

Service income is recognised when services are provided.

Guaranteed return is accrued on a time basis and is recognised when the guaranteed return becomes due and recoverability is reasonably assured.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

#### Property, plant and equipment

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

The cost of leasehold land is amortised over the period of the lease using the straight-line method. Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	2%
Plant and machinery	5%–20%
Furniture, fixtures and equipment	20%–33%
Motor vehicles	20%

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

For the Year Ended 31st December, 2001

### 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 plus the goodwill paid on acquisition in so far as it has not already been amortised to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

#### Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill paid on acquisition in so far as it has not already been amortised to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### Investments

Guaranteed income investments are accounted for as investments where the return therefrom is fixed. Such investments are initially recorded at cost less amortisation and impairment losses recognised.

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 impairment loss that is other than temporary.

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

*For the Year Ended 31st December, 2001*

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

#### **Inventories**

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

#### **Taxation**

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

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Operating leases**

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

#### **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 income immediately.

#### **Retirement benefit scheme contributions**

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

For the Year Ended 31st December, 2001

**4. TURNOVER**

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances, service income and guaranteed return for the year, and is analysed as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Continuing operations:		
Internet software services	<b>285</b>	1,272
Return from a power plant in the People's Republic of China ("PRC")	<b>374</b>	3,738
Return from an investment in a motor spare parts business in the PRC ( <i>note</i> )	<b>—</b>	234
	<b>659</b>	5,244
Discontinued operations:		
Manufacture and sale of coke, coal gas, coal tar and benzene	<b>99,919</b>	99,618
Automobile repair and maintenance services	<b>26,239</b>	37,260
	<b>126,817</b>	142,122

*Note:*

No return has been recognised in the current year as the recoverability of the guaranteed return for the current year is considered by the directors to be uncertain.

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

For management purposes, the Group is currently organised into three operating divisions — internet software services, power plant and motor spare parts business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Internet software services	—	Provision of internet software services
Power plant	—	Guaranteed income investment in a power plant in the PRC
Motor spare part business	—	Guaranteed income investment in a motor spare parts business in the PRC

The Group was also involved in the manufacture and sale of coke, coal gas, coal tar and benzene, as well as the provision of automobile repair and maintenance services. These operations were disposed of during the year (see note 10).

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

Segment information about these businesses is presented below.

#### 2001

	Discontinued operations		Continuing operations				Consolidated HK\$'000
	Manufacture and sale of coke, coal gas, coal tar, and benzene HK\$'000	Automobile repair and maintenance services HK\$'000	Internet software services HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	Unallocated corporate HK\$'000	
<b>TURNOVER</b>							
External sales	99,919	26,239	285	374	—	—	126,817
<b>RESULT</b>							
Segment gain (loss)	10,062	2,300	(3,241)	(130)	(10)	—	8,981
Unallocated corporate expenses	—	—	—	—	—	(58,420)	(58,420)
Profit (loss) from operations	10,062	2,300	(3,241)	(130)	(10)	(58,420)	(49,439)
Finance costs	(4,563)	(567)	—	—	—	(3,507)	(8,637)
Net investment gain	110	8	6	—	—	13,678	13,802
Share of results of associates	—	—	—	—	—	(21,781)	(21,781)
Share of results of jointly controlled entities	—	—	—	—	—	(1,085)	(1,085)
Gain on disposal of jointly controlled entities	—	—	—	—	—	11,618	11,618
Loss on disposal of associates	—	—	—	—	—	(7,762)	(7,762)
Profit (loss) on disposal of discontinued operations	2,685	(13,568)	—	—	—	—	(10,883)
Impairment losses	—	—	—	—	—	(693)	(693)
Profit (loss) before taxation	8,294	(11,827)	(3,235)	(130)	(10)	(67,952)	(74,860)
Taxation	(219)	(1,093)	—	—	—	—	(1,312)
Profit (loss) after taxation	8,075	(12,920)	(3,235)	(130)	(10)	(67,952)	(76,172)
Minority interests	—	(130)	—	—	—	—	(130)
<b>Net profit (loss) for the year</b>	<b>8,075</b>	<b>(13,050)</b>	<b>(3,235)</b>	<b>(130)</b>	<b>(10)</b>	<b>(67,952)</b>	<b>(76,302)</b>
<b>OTHER INFORMATION</b>							
Capital additions	8,356	1,085	107	—	—	1,521	11,069
Depreciation and amortisation	4,227	816	1,635	504	—	19,282	26,464
Allowance for:							
— trade and other receivables	—	—	692	—	—	—	692
— amount due from a former associate	—	—	—	—	—	4,000	4,000

For the Year Ended 31st December, 2001

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## Business segments (continued)

2001

## BALANCE SHEET

	Discontinued operations		Continuing operations			Consolidated
	Manufacture and sale of coke, coal gas, coal tar, and benzene	Automobile repair and maintenance services	Internet software services	Power plant	Motor spare parts business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	—	—	368	9,496	—	9,864
Interests in associates						74,933
Unallocated corporate assets						195,715
Consolidated total assets						280,512
LIABILITIES						
Segment liabilities	—	—	84	—	—	84
Unallocated corporate liabilities						39,299
Consolidated total liabilities						39,383

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

2000

	Discontinued operations		Continuing operations				Consolidated HK\$'000
	Manufacture and sale of coke, coal gas, coal tar, and benzene HK\$'000	Automobile repair and maintenance services HK\$'000	Internet software services HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	Unallocated corporate HK\$'000	
<b>TURNOVER</b>							
External sales	99,618	37,260	1,272	3,738	234	—	142,122
<b>RESULT</b>							
Segment (loss) gain	(6,737)	270	(5,483)	(2,388)	(49)	—	(14,387)
Unallocated corporate expenses	—	—	—	—	—	(63,745)	(63,745)
(Loss) profit from operations	(6,737)	270	(5,483)	(2,388)	(49)	(63,745)	(78,132)
Finance costs	(3,454)	(710)	—	—	—	(4,379)	(8,543)
Net investment gain (loss)	320	29	10	—	—	(3,713)	(3,354)
Share of results of associates	—	—	—	—	—	(12,535)	(12,535)
Impairment losses	(143,340)	(10,187)	(71,642)	(93,063)	—	(4,000)	(322,232)
Loss before taxation	(153,211)	(10,598)	(77,115)	(95,451)	(49)	(88,372)	(424,796)
Taxation	—	(883)	—	—	—	—	(883)
Loss after taxation	(153,211)	(11,481)	(77,115)	(95,451)	(49)	(88,372)	(425,679)
Minority interests	—	259	—	—	—	—	259
Net loss for the year	(153,211)	(11,222)	(77,115)	(95,451)	(49)	(88,372)	(425,420)
<b>OTHER INFORMATION</b>							
Capital additions	6,180	681	2,016	—	—	3,996	12,873
Depreciation and amortisation	13,644	2,425	68	6,407	—	1,855	24,399
Allowance for:							
— trade and other receivables	169	1,073	4,673	—	—	—	5,915
— amounts due from related companies	4,718	223	—	—	—	2,742	7,683
— amount due from associates	—	—	—	—	—	274	274
Unrealised holding loss on other investments	—	—	—	—	—	7,350	7,350



For the Year Ended 31st December, 2001

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Business segments (continued)****2000**

## BALANCE SHEET

	Manufacture and sale of coke, coal gas, coal tar, and benzene HK\$'000	Automobile repair and maintenance services HK\$'000	Internet services provider HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	139,766	43,327	3,624	10,000	—	196,717
Interests in associates						97,856
Unallocated corporate assets						220,507
Consolidated total assets						515,080
LIABILITIES						
Segment liabilities	124,622	15,664	104	—	—	140,390
Unallocated corporate liabilities						53,684
Consolidated total liabilities						194,074

**Geographical segments**

All the turnover of the Group arose from PRC excluding the Hong Kong and Macau Special Administrative Regions.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	216,289	226,842	1,477	4,416
Other regions of PRC	57,907	284,426	9,549	8,457
Overseas	6,316	3,812	43	—
	<b>280,512</b>	515,080	<b>11,069</b>	12,873

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 6. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	<b>1,500</b>	1,940
Depreciation and amortisation of:		
— guaranteed income investments	<b>504</b>	6,407
— property, plant and equipment	<b>8,441</b>	17,992
— goodwill arising on acquisition of associates (included in other operating expenses)	<b>9,282</b>	—
— goodwill arising on acquisition of jointly controlled entities (included in other operating expenses)	<b>8,237</b>	—
	<b>26,464</b>	24,399
Loss on disposal of property, plant and equipment	<b>1,180</b>	1,305
Allowance for:		
— trade and other receivables	<b>692</b>	5,915
— amounts due from related companies	—	7,683
— amounts due from associates	—	274
— amount due from a former associate	<b>4,000</b>	—
Staff costs, including directors' remuneration	<b>20,462</b>	42,338

### 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### Directors' remuneration

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	—	2,130
	—	2,130
Other emoluments (executive directors):		
Salaries and other benefits	<b>7,209</b>	12,846
Non-contractual payments for loss of offices paid to executive directors	—	9,000
Contributions to retirement benefits scheme	<b>36</b>	3,084
	<b>7,245</b>	24,930
	<b>7,245</b>	27,060

For the Year Ended 31st December, 2001

**7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)****Directors' remuneration (continued)**

The emoluments of the directors were within the following bands:

	<b>2001 Number of directors</b>	2000 Number of directors
Nil to HK\$1,000,000	<b>10</b>	14
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>—</b>	1
HK\$3,500,001 to HK\$4,000,000	<b>—</b>	1
HK\$12,500,001 to HK\$13,000,000	<b>—</b>	1

**Employees' remuneration**

During the year, the five highest paid individuals of the Group included two directors (2000: four directors) of the Company. The emoluments of the remaining three (2000: one) highest paid individual(s) were as follows:

	<b>2001 HK\$'000</b>	2000 HK\$'000
Salaries and other benefits	<b>5,267</b>	778
Contractual compensation for loss of office	<b>—</b>	321
Contributions to retirement benefits scheme	<b>25</b>	229
	<b>5,292</b>	1,328

The emoluments of the employee(s) were within the following bands:

	<b>2001 Number of employees</b>	2000 Number of employees
Up to HK\$1,000,000	<b>1</b>	—
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	—

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank borrowings wholly repayable within five years	(8,637)	(7,846)
Loan arrangement fee	—	(697)
	<b>(8,637)</b>	<b>(8,543)</b>

### 9. NET INVESTMENT GAIN (LOSS)

	2001 HK\$'000	2000 HK\$'000
Unrealised holding gain (loss) on other investments	2,813	(7,350)
Gain (loss) on disposal of other investments	7,847	(1,626)
Interest income	3,142	5,622
	<b>13,802</b>	<b>(3,354)</b>

The unrealised holding gain (loss) on other investments has been calculated by reference to the market prices of the listed shares at the balance sheet date.

### 10. DISCONTINUED OPERATIONS

- (a) On 6th December, 2001, the Group disposed of its 80% interests in issued share capital of Henan Motor Car Repairing Company Limited 河南小汽車修理有限公司 ("HMCR") to Amandine Asia Limited at a consideration of HK\$10,000,000. HMCR is incorporated in the PRC and is engaged in the provision of automobile repair and maintenance services. During the period up to disposal, HMCR had a turnover of HK\$26,239,000 (2000: HK\$37,260,000) and a profit after taxation of HK\$648,000 (2000: loss after taxation of HK\$11,481,000).
- (b) On 31st December, 2001, the Group disposed of its entire shareholding in Grace Melody Enterprises Limited ("Grace Melody"), which holds the entire issued share capital of Henan Hong Kong (Jiyuan) Coking Company Limited 豫港(濟源)焦化有限公司 ("HH Coking"), to Buildnow Industries Limited at a consideration of RMB23,588,000 (approximately HK\$22,045,000). HH Coking is incorporated in the PRC and is engaged in the manufacture and sale of coke, coal gas, coal tar and benzene. During the period up to disposal, HH Coking had a turnover of HK\$99,919,000 (2000: HK\$99,618,000) and a profit after taxation of HK\$5,390,000 (2000: loss after taxation of HK\$153,211,000).

Further details of the disposals are set out in note 32.

For the Year Ended 31st December, 2001

**11. IMPAIRMENT LOSSES**

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Impairment losses recognised in respect of:		
— investment securities ( <i>note 19</i> )	<b>(693)</b>	(4,000)
— property, plant and equipment	—	(127,000)
— goodwill on acquisition of subsidiaries	—	(98,169)
— guaranteed income investments ( <i>note 18(e)</i> )	—	(93,063)
	<b>(693)</b>	(322,232)

**12. TAXATION**

The charge represents PRC income tax on estimated assessable income calculated at the prevailing rates.

No provision for Hong Kong Profits Tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profit in both years.

Details of the Group's potential deferred taxation are set out in note 29.

**13. LOSS PER SHARE**

The calculation of loss per share is based on net loss for the year of approximately HK\$76,302,000 (2000: HK\$425,420,000) and 2,663,370,147 shares (2000: a weighted average of 2,178,479,003 shares) in issue during the year.

No diluted loss per share has been calculated as the exercise of the share options would result in a decrease in loss per share for both years.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 14. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and buildings</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
COST					
At 1st January, 2001	172,169	83,696	4,325	13,638	273,828
Additions	1,508	7,914	1,632	15	11,069
Disposals	—	(392)	(1,735)	(876)	(3,003)
On disposal of subsidiaries	(172,838)	(91,218)	(561)	(7,113)	(271,730)
At 31st December, 2001	839	—	3,661	5,664	10,164
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS					
At 1st January, 2001	101,865	61,809	1,492	6,061	171,227
Provided for the year	1,072	3,186	1,898	2,285	8,441
Eliminated on disposals	—	(8)	(946)	(39)	(993)
On disposal of subsidiaries	(102,917)	(64,987)	(390)	(4,553)	(172,847)
At 31st December, 2001	20	—	2,054	3,754	5,828
NET BOOK VALUES					
At 31st December, 2001	819	—	1,607	1,910	4,336
At 31st December, 2000	70,304	21,887	2,833	7,577	102,601

	<b>2001 HK\$'000</b>	2000 HK\$'000
(a) The net book value of the Group's leasehold land and buildings comprises:		
Situated in Hong Kong		
Properties held under medium-term leases	<b>819</b>	835
Situated in the PRC		
Properties held under medium-term leases	—	41,564
Properties held under short-term leases	—	27,905
	<b>819</b>	70,304

For the Year Ended 31st December, 2001

**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

- (b) In 2000, the Group has pledged leasehold land and buildings with a net book value of HK\$9,281,000 to secure banking facilities granted to the Group, details of which are set out in note 25(c).

	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
THE COMPANY			
COST			
At 1st January, 2001	2,024	1,348	3,372
Additions	75	—	75
Disposals	(1,735)	—	(1,735)
At 31st December, 2001	364	1,348	1,712
DEPRECIATION			
At 1st January, 2001	772	873	1,645
Provided for the year	385	252	637
Eliminated on disposals	(946)	—	(946)
At 31st December, 2001	211	1,125	1,336
NET BOOK VALUES			
At 31st December, 2001	153	223	376
At 31st December, 2000	1,252	475	1,727

**15. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares/investments, at cost	<b>1</b>	35,515
Amounts due from subsidiaries	<b>503,543</b>	575,197
	<b>503,544</b>	610,712
Impairment loss recognised in respect of unlisted shares/investments	—	(22,000)
Allowance for amounts due from subsidiaries	<b>(313,290)</b>	(371,324)
	<b>190,254</b>	217,388

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 15. INVESTMENTS IN SUBSIDIARIES (continued)

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the balances will be repayable within twelve month from the balance sheet date and the balances are therefore shown as non-current.

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

In 2000, the Company's shareholding in a wholly owned subsidiary, Grace Melody, has been pledged to a bank to secure banking facilities granted to the Company, details of which are set out in note 25a. Grace Melody was disposed of during the year.

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

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid registered capital/share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Miracle Luck Limited	Hong Kong	HK\$20	—	100%	Investment in securities
Originsoft (Zhengzhou) Co., Ltd. ("Originsoft") 思源(鄭州)軟件有限公司	PRC	RMB5,000,000	—	100%	Provision of internet software services

The above table lists the subsidiaries of the Company 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 16. DEPOSIT FOR ACQUISITION OF INVESTMENTS

In October 2000, the Group paid a net sum of HK\$48,000,000 as a deposit to acquire 60% of the issued share capital of CTIA by acquiring the entire share capital of CTIA's holding company, Excellent Idea Group Limited ("EIGL").

On 19th April, 2001, the acquisition was completed at a cash consideration of approximately HK\$65,504,000 inclusive of incidental costs. CTIA is incorporated in Hong Kong and is engaged in investment holding. CTIA's 60% subsidiary is engaged in providing telecommunication services and has a 35% interest in a company which is an integrator and provider of information and data for broadcasting in the PRC. CTIA and its subsidiary are not consolidated and are treated as jointly controlled entities as the Group's ability to appoint the majority of the board of directors to CTIA is limited. The Group and the other shareholder of CTIA both have the right to appoint an equal number of directors to the board of directors. CTIA is accounted for in the Group's consolidated financial statements using the equity method of accounting. Goodwill arising on acquisition of EIGL was HK\$61,779,000. The amortisation for the year was HK\$8,237,000 and was amortised over a period of 5 years.



For the Year Ended 31st December, 2001

**16. DEPOSIT FOR ACQUISITION OF INVESTMENTS (continued)**

In December 2001, the Group disposed of its entire shareholding in EIGL to Elite Alliance Limited at a consideration of HK\$68,000,000, resulting in a gain of HK\$11,618,000 after netting off the incidental cost of HK\$200,000.

**17. INTERESTS IN ASSOCIATES**

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	<b>37,009</b>	91,118	—	—
Unlisted investments, at cost	—	—	—	1
Goodwill recognized	<b>46,411</b>	—	—	—
Less: Amortisation for the period	<b>(9,282)</b>	—	—	—
Goodwill, net	<b>37,129</b>	—	—	—
Amounts due from associates	<b>795</b>	7,012	—	274
Allowance for amounts due from associates	—	(274)	—	(274)
	<b>74,933</b>	97,856	—	1

The amounts due from associates at 31st December, 2001 are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts are repayable within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Included in the Group's amounts due from associates at 31st December, 2000 was a balance of HK\$1,521,000 which carried interest at prevailing market rate, had no fixed repayment terms and was secured by the associate's investments in securities with a market value at 31st December, 2000 of HK\$1,376,000. The remaining balances were unsecured, interest free and had no fixed repayment terms.

On 20th January, 2001 the Group acquired 45% of the issued share capital of Sharpo Holdings Limited ("Sharpo"), a company incorporated in the British Virgin Islands, from an outsider at a cash consideration of approximately HK\$46,845,000 inclusive of incidental costs. Sharpo is engaged in e-commerce consultancy, software development, system integration, web design and sales of software.

The directors of the Company have considered the business plan and future cash flows of Sharpo and are of opinion that there has been no impairment loss on goodwill.

On 29th September, 2001, the Group disposed of its 49% interests in issued share capital of Sharp Capital Investments Limited ("Sharp Capital") to Sunny Field Limited, at a consideration of HK\$25,000,000, resulting in a loss of HK\$7,762,000. Sharp Capital is incorporated in Hong Kong and is engaged in property investment.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 17. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's associates at 31st December, 2001 are as follows:

Name of Company	Place of incorporation/ operation	Issued and fully paid registered capital/share capital	Proportion of ownership interest	Principal activities
Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司	PRC	RMB165,000,000	49%	Construction, maintenance enhancement and running of cable broadcasting and television network in Henan Province, the PRC
Sharpo Holdings Limited (note 37(b))	BVI/PRC	HK\$234,000	45%	E-commerce consultancy, software development, system integration, web design and sales of software

The following financial information has been extracted from the unaudited management accounts of Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司 as at 31st December, 2001:

	2001 HK\$'000	2000 HK\$'000
<i>Income statement</i>		
Turnover	<b>6,053</b>	5,130
Depreciation and amortisation	<b>36,998</b>	15,089
Loss before taxation	<b>41,121</b>	16,075
Loss before taxation attributable to the Group	<b>20,149</b>	7,877
<i>Balance sheet</i>		
Non-current assets	<b>106,725</b>	138,058
Current assets	<b>120,006</b>	95,043
Current liabilities	<b>151,201</b>	116,447
Net assets	<b>75,530</b>	116,654
Net assets attributable to the Group	<b>37,009</b>	57,160

For the Year Ended 31st December, 2001

**18. GUARANTEED INCOME INVESTMENTS**

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted investments in the PRC, at cost	<b>124,299</b>	124,299	<b>121,495</b>	121,495
Accumulated amortisation	<b>(21,740)</b>	(21,236)	<b>(21,178)</b>	(20,674)
	<b>102,559</b>	103,063	<b>100,317</b>	100,821
Impairment loss recognised	<b>(93,063)</b>	(93,063)	<b>(90,821)</b>	(90,821)
	<b>9,496</b>	10,000	<b>9,496</b>	10,000

The unlisted investments in the PRC represents the Group's investment in Henan Taiwu Electric Power Co., Ltd. 河南太屋電力有限公司 ("Taiwu") and Kaifeng Hongya Machinery Co., Ltd. 開封宏亞機械有限公司 ("Kaifeng").

- (a) Taiwu, a wholly owned subsidiary of the Company, had obtained consents from relevant PRC authorities to construct and operate a 25,000KW power generating unit (the "Unit") in Henan Province, the PRC and to produce and distribute electricity to Jiyuan Shi, Henan Province, the PRC, for the period from 25th June, 1996 to 24th June, 2017. The development and construction of the Unit was sub-contracted to Jiyuan Power Plant Company 河南省濟源電廠 ("Jiyuan") on a turnkey basis at a fixed cost of RMB130,000,000 (approximately HK\$121,495,000). Commencing from 15th August, 1997, the operation and management of the Unit has been sub-contracted to Jiyuan pursuant to an operating agreement signed between Taiwu and Jiyuan (the "Operating Agreement"). The directors of the Company do not anticipate that any additional investment into the Unit will be required in the foreseeable future. Under the Operating Agreement, Jiyuan is responsible for the management and operation of the Unit, and all the profits and losses generated from the operation as well as taxes payable will be taken up by Jiyuan. Jiyuan will pay a guaranteed return to Taiwu, which is equivalent to 17% per annum on the total investment of Taiwu. Upon the expiry of the Operating Agreement, the Unit will revert to Jiyuan at no cost.

The Group's guaranteed return in Taiwu was pledged to a bank to secure banking facilities granted to the Group, details of which are set out in note 25(a).

- (b) In 1999, the Group acquired a 37.5% interest in Kaifeng, a company which is engaged in the manufacture and sales of spare parts for automobiles in Henan Province, the PRC. The Group entered into an operating agreement (the "Agreement") with an independent third party 開封宏達撥叉(集團)有限公司 ("宏達") for the operation and management of Kaifeng for a period of ten years. The directors of the Company do not anticipate that any additional investment in Kaifeng will be required in the foreseeable future. Under the Agreement, 宏達 is responsible for the management and operation of Kaifeng, and all the profits and losses generated from the operation as well as taxes payable will be taken up by 宏達. 宏達 will pay to the Group a guaranteed return of RMB750,000 per annum for the first four years and RMB700,000 per annum for the remaining six years.

For the Year Ended 31st December, 2001

#### 18. GUARANTEED INCOME INVESTMENTS (continued)

- (c) Since the Group has no control over the assets or management or operations of Taiwu and Kaifeng, and only receives passive income from Jiyuan and 宏達, respectively, the directors of the Company consider that it is more appropriate to classify the investments as guaranteed income investments and state at cost less impairment loss and amortisation on a straight line basis over the operating tenure of twenty years and ten years, respectively. The Group does not have any further commitment to invest in Taiwu and Kaifeng.
- (d) Since 2000, the Group experienced difficulties in collecting the guaranteed returns in respect of its investments in Taiwu, principally because of the restriction in operation imposed by the PRC government on smaller power generating units, and Kaifeng. An aggregate amount of RMB4,650,000 (approximately HK\$4,346,000) has been received by the Group during the period from 1st January, 2001 up to the date of this report. The Group has issued demand letters through solicitors to Jiyuan and 宏達 and is considering to take further actions to collect the outstanding guaranteed income amounts. As the recoverability of the aggregate outstanding guaranteed income of RMB41,050,000 (approximately HK\$38,365,000) was considered by the directors to be uncertain, it has not been recognised by the Group as revenue in the financial statements.
- (e) Taking into the account of the restriction in operation of Taiwu and the inability to collect on the guaranteed return arrangements, the directors consider that there had been a decline in the recoverable amount of these guaranteed income investments and an impairment loss of HK\$93,063,000 had been recognised in the financial statements in 2000, thus reducing the carrying value of the guaranteed income investments at 31st December, 2000 to HK\$10,000,000, being the estimated sale proceeds of these investments in 2000. In the opinion of the directors, the carrying value of HK\$9,496,000 approximates the estimated sale proceeds of these investments as of 31st December, 2001.

For the Year Ended 31st December, 2001

**19. INVESTMENTS IN SECURITIES**

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<i>Investment securities:</i>				
Unlisted overseas investment, at cost less impairment loss	<b>3,119</b>	3,812	<b>3,119</b>	3,812
Unlisted investments in the PRC, at cost	<b>10,000</b>	421	—	—
Club membership in Hong Kong, at cost	<b>220</b>	220	—	—
Club membership in the PRC, at cost	<b>630</b>	630	<b>630</b>	630
	<b>13,969</b>	5,083	<b>3,749</b>	4,442
<i>Other investments:</i>				
Listed shares in Hong Kong, at market value	<b>7,465</b>	23,525	<b>7,465</b>	15,386
Unlisted convertible bonds, at fair value	—	2,908	—	2,908
	<b>7,465</b>	26,433	<b>7,465</b>	18,294
	<b>21,434</b>	31,516	<b>11,214</b>	22,736
<i>Carrying amount analysed for reporting purposes as:</i>				
Current	<b>7,465</b>	26,433	<b>7,465</b>	18,294
Non-current	<b>13,969</b>	5,083	<b>3,749</b>	4,442
	<b>21,434</b>	31,516	<b>11,214</b>	22,736

*Investment securities:*

The unlisted overseas investment represents the Group's and the Company's 1.66% interests in StemCyte, Inc., a company incorporated in the United States of America specialising in stem cell banking. The consideration of US\$1,000,000 was paid by the Company in August 2000. The directors estimate that recoverable amount of this investment is its estimated net selling price in the current market. After considering the current operations of this Company, the directors considered that these had been a decline in the recoverable amount of this investment. Accordingly, an impairment loss of HK\$693,000 and HK\$4,000,000 has been recognised in the financial statements in 2001 and 2000, respectively. StemCyte, Inc. is not related to the Group, the Company's directors or substantial shareholders.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 19. INVESTMENTS IN SECURITIES (continued)

As of 31st December, 2001, the unlisted investments in the PRC represent the Group's 19.8% interests in Goldfit Assets Limited ("Goldfit"), a company incorporated in the British Virgin Islands. Goldfit has a 29.7% interest in China Real Estate Development Beijing Company Limited 中國房地產開發北京有限公司, a company incorporated in PRC and is engaged in property development and management.

Goldfit and China Real Estate Development Beijing Company Limited 中國房地產開發北京有限公司 are not related to the Group, the Company's directors or substantial shareholders.

### 20. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	—	22,512
Work in progress	—	236
Finished goods	—	1,118
	—	23,866

Included in 2000 are raw materials of HK\$5,527,000 which are carried at net realisable value.

### 21. TRADE AND OTHER RECEIVABLES

The Group and the Company allows an average credit period of 30 days to its trade customers. The aged analysis of trade receivables is as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Up to 30 days	—	23,333	—	2,803
31 to 60 days	—	3,276	—	—
61 to 90 days	—	1,624	—	—
91 days or above	—	5,157	—	—
Total trade receivables	—	33,390	—	2,803
Other receivables (Note)	112,335	41,136	21,125	14,524
	112,335	74,526	21,125	17,327

For the Year Ended 31st December, 2001

**21. TRADE AND OTHER RECEIVABLES (continued)**

Note:

As of 31st December, 2001, included in other receivables are the outstanding balances for the purchase consideration due from the purchasers as a result of the disposal of the Group's subsidiaries, jointly controlled entities and an associate. A breakdown of these outstanding balances, which are all repayable within one year from the balance sheet date, is as follows:

	<b>THE GROUP</b>	<b>THE COMPANY</b>
	HK\$'000	HK\$'000
Amandine Asia Limited (note 10(a))	8,000	8,000
Buildnow Industries Limited (note 10(b))	12,803	12,803
Elite Alliance Limited (note 16)	68,000	—
Sunny Field Limited (note 17)	20,000	—
	<b>108,803</b>	<b>20,803</b>
Amount settled after the year end	73,000	8,000

In the opinion of the directors, no collectibility problem is expected for the remaining balances.

All the above companies are not related to the Group, the Company's directors or substantial shareholders.

**22. REFUNDABLE DEPOSITS**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Turnmile (Overseas) Limited	<b>12,800</b>	—	—	—
Winston Group Limited	—	5,000	—	5,000
Hetton Investments Limited	—	5,000	—	5,000
New Faith Multi-Media Network Development Limited	—	2,000	—	—
	<b>12,800</b>	12,000	—	10,000

During 2001, the Group paid deposits of HK\$12,800,000 in aggregate to Turnmile (Overseas) Limited with the intention of acquiring its telecommunication business. The directors finally decided to withdraw from this transaction and the deposit was scheduled to be refunded to the Group before 25th June, 2002.

Turnmile (Overseas) Limited is not related to the Group, the Company's directors or substantial shareholders.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 23. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is stated as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Up to 30 days	—	9,716	—	—
31 to 60 days	—	5,546	—	—
61 to 90 days	—	887	—	—
91 days or above	—	16,042	—	—
Total trade payables	—	32,191	—	—
Other payables	<b>4,553</b>	57,168	<b>3,534</b>	5,738
	<b>4,553</b>	89,359	<b>3,534</b>	5,738

### 24. AMOUNT DUE TO A RELATED COMPANY

#### THE GROUP

The balance represented the amount due to Henan Hongkong Finance Limited at 31st December, 2000 and was unsecured, interest free and had been discharged by the Group as a result of the disposal of HH Coking.



For the Year Ended 31st December, 2001

**25. BANK LOANS**

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The maturity of the bank loans is as follows:				
Within one year	<b>34,830</b>	94,104	<b>34,830</b>	46,440
More than one year but not exceeding two years	—	9,346	—	—
	<b>34,830</b>	103,450	<b>34,830</b>	46,440
Less: Amount due within one year shown under current liabilities	<b>34,830</b>	94,104	<b>34,830</b>	46,440
Amount due after one year	—	9,346	—	—

*Notes:*

- (a) At 31st December, 2001, bank loan of the Group and the Company of HK\$34,830,000 (2000: HK\$46,440,000) was guaranteed by a subsidiary of Henan Hongkong Enterprises Limited ("HHE") without charge. In addition, the Group's guaranteed return in Taiwu was also pledged to the bank.

At 31st December, 2000, the bank loan was also secured by HH Coking's property, plant and equipment of approximately HK\$61 million and the Company's shareholding in a wholly owned subsidiary, Grace Melody.

Grace Melody is the holding company of HK Coking. As stated in note 10, the Company's shareholding in Grace Melody has been disposed of during 2001.

- (b) Bank loans of HK\$28,037,000 at 31st December, 2000 were guaranteed by independent third parties without charge.
- (c) Bank loans of HK\$15,888,000 at 31st December, 2000 were secured by the Group's property, plant and equipment with a net book value of HK\$9,281,000.
- (d) Bank loans of HK\$9,346,000 at 31st December, 2000 were guaranteed by a subsidiary of HHE without charge.
- (e) The remaining bank loans in 2000 were unsecured.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 26. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

	Number of shares		Value	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Authorised:				
Ordinary shares of HK\$0.2 each				
— At beginning of year	<b>6,000,000,000</b>	3,000,000,000	<b>1,200,000</b>	600,000
— increase in authorised ordinary share capital (note c)	—	3,000,000,000	—	600,000
— At end of year	<b>6,000,000,000</b>	6,000,000,000	<b>1,200,000</b>	1,200,000
Issued and fully paid:				
Ordinary shares of HK\$0.2 each				
— At beginning of year	<b>2,663,370,147</b>	1,579,656,000	<b>532,674</b>	315,931
— issue of shares up on exercise of share options	—	17,850,000	—	3,570
— issue of shares upon placements and subscriptions (note a, d and e)	<b>2,663,370,147</b>	1,597,506,000	<b>532,674</b>	319,501
— issue of shares to acquire a subsidiary (note b)	—	853,000,000	—	170,600
— issue of shares upon exercise of share options	—	140,864,147	—	28,173
— issue of shares upon exercise of share options	—	72,000,000	—	14,400
— At end of year	<b>2,663,370,147</b>	2,663,370,147	<b>532,674</b>	532,674

Note:

- (a) On 17th January, 2000, Fulham Associates Limited ("Fulham"), a substantial shareholder of the Company which was beneficially interested in approximately 22.9% of the issued share capital of the Company, agreed to sell 170,000,000 shares in the Company to independent professional investors at HK\$0.41 per share. Fulham also agreed on same day to subscribe for 170,000,000 new shares at HK\$0.41 per share less all costs and expenses incurred for the placing. The 170,000,000 new shares were allotted to Fulham on 31st January, 2000. The net proceeds of the placement of approximately HK\$68 million were used to expand the Group's cable broadcasting and television network as well as for general working capital.
- (b) On 21st March, 2000, the Company issued 140,864,147 ordinary shares of HK\$0.2 each to acquire the entire interest in Originsoft. The market price of the Company's shares at date of issue was HK\$0.53 per share.

For the Year Ended 31st December, 2001

**26. SHARE CAPITAL (continued)***Note: (continued)*

- (c) At the extraordinary general meeting held on 23rd May, 2000, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK\$600,000,000 comprising 3,000,000,000 shares of HK\$0.2 each to HK\$1,200,000,000 comprising 6,000,000,000 shares of HK\$0.2 each by creating an additional 3,000,000,000 shares of HK\$0.2 each.
- (d) On 31st May, 2000, pursuant to two agreements dated 29th March, 2000 as approved by shareholders of the Company on 23rd May, 2000, the Company issued a total of 300,000,000 ordinary shares of HK\$0.2 each at a cash price of HK\$0.2 per share to Chamber Spirit Limited ("CSL"), a company beneficially owned by Messrs. Chan Chi Keung, Victor and Chung Chi Shing on 15th May, 2001, and to Joint Tech Properties Limited ("JTPL"), a company beneficially owned by the China Sciences Industries Limited. The net proceeds of approximately HK\$56 million was used to diversify the Group's business into the field of telecommunication and high technology projects. Pursuant to the agreements, the Company also granted options to CSL and JTPL to subscribe for another 260,000,000 new shares and 140,000,000 new shares respectively at a cash subscription price of HK\$0.22 per share within one year from 31st May, 2000. Each of CSL and JTPL had the right to nominate one person to the board of directors of the Company so long as each of CSL and JTPL was interested in not less than 5% of the issued share capital of the Company from time to time. These options have been lapsed during 2001.
- (e) On 12th October, 2000, the Company further issued 383,000,000 ordinary shares of HK\$0.2 each at a price of HK\$0.26 per share to independent third parties pursuant to a placement agreement dated 19th September, 2000. The net proceeds of approximately HK\$97 million from the placing of shares were being used by the Group to acquire high technology projects.

All the new shares issued rank *pari passu* with the existing shares in all respects.

**27. SHARE OPTIONS**

- (a) As stated in note 26 (d), the Company granted options to CSL and JTPL to subscribe for another 260,000,000 new shares and 140,000,000 new shares respectively in the Company at a cash subscription price of HK\$0.22 per share within one year from 31st May, 2000. These options were lapsed during 2001.
- (b) At 31st December, 2001, the followings options to subscribe for shares were outstanding under the Company's share option scheme:

Number of share options	Exercisable period	Exercise price per share HK\$
19,500,000	26.1.2001 to 25.1.2010	0.3300
10,000,000	3.2.2001 to 2.2.2010	0.3648
5,000,000	6.4.2001 to 5.4.2010	0.4968
4,000,000	19.6.2001 to 18.6.2010	0.3152
9,000,000	28.7.2001 to 27.7.2010	0.2784
12,000,000	31.7.2001 to 30.7.2010	0.2784
59,500,000		

No share options were granted during 2001.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 28. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Goodwill HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At 1st January, 2000	393,154	(16)	(26,527)	(280,883)	85,728
Issue of shares upon placements and subscriptions	58,680	—	—	—	58,680
Issue of shares to acquire a subsidiary	46,485	—	—	—	46,485
Issue of shares upon exercise of share options	2,080	—	—	—	2,080
Share issue expenses	(9,323)	—	—	—	(9,323)
Arising on acquisition of a subsidiary	—	—	(71,642)	—	(71,642)
Impairment loss in goodwill of subsidiaries	—	—	98,169	—	98,169
Net loss for the year	—	—	—	(425,420)	(425,420)
At 31st December, 2000 and 1st January, 2001	491,076	(16)	—	(706,303)	(215,243)
Net loss for the year	—	—	—	(76,302)	(76,302)
At 31st December, 2001	491,076	(16)	—	(782,605)	(291,545)

The deficit of the Group includes losses of approximately HK\$41 million (2000: HK\$24 million) attributable to associates of the Group.

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
At 1st January, 2000	393,154	(310,007)	83,147
Issue of shares upon placements and subscriptions	58,680	—	58,680
Issue of shares to acquire a subsidiary	46,485	—	46,485
Issue of shares upon exercise of share options	2,080	—	2,080
Share issue expenses	(9,323)	—	(9,323)
Net loss for the year	—	(399,254)	(399,254)
At 31st December, 2000 and 1st January, 2001	491,076	(709,261)	(218,185)
Net loss for the year	—	(82,384)	(82,384)
At 31st December, 2001	491,076	(791,645)	(300,569)

The Company did not have any reserves available for distribution at 31st December, 2001 and 2000.

For the Year Ended 31st December, 2001

**29. POTENTIAL DEFERRED TAXATION**

At the balance sheet date, the major components of the potential deferred taxation assets (liabilities) are as follows:

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences attributable to:		
Tax losses available to set off future profits	<b>11,800</b>	9,729
(Excess) shortfall of depreciation allowance claimed for tax purpose over depreciation charged in the financial statements	<b>(30)</b>	10
	<b>11,770</b>	9,739

A potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the tax benefits will be utilised in the foreseeable future.

The amount of unrecognised deferred tax credit of the Group for the year is as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Tax losses incurred	<b>2,071</b>	8,090
(Excess) shortfall of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<b>(40)</b>	65
	<b>2,031</b>	8,155

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 30. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	<b>(74,860)</b>	(424,796)
Impairment losses	<b>693</b>	322,232
Share of results of associates	<b>21,781</b>	12,535
Share of results of jointly controlled entities	<b>1,085</b>	—
Unrealised holding (gain) loss of other investments	<b>(2,813)</b>	7,350
Gain on disposal of jointly controlled entities	<b>(11,618)</b>	—
Loss on disposal of associates	<b>7,762</b>	—
Loss on disposal of discontinued operations	<b>10,883</b>	—
Interest income	<b>(3,142)</b>	(5,622)
Interest expense	<b>8,637</b>	7,846
Amortisation of guaranteed income investments	<b>504</b>	6,407
Amortisation of goodwill arising on acquisition of		
— associates	<b>9,282</b>	—
— jointly controlled entities	<b>8,237</b>	—
Depreciation and amortisation of property, plant and equipment	<b>8,441</b>	17,992
Loss on disposal of property, plant and equipment	<b>1,180</b>	1,305
Allowance for amounts due from associates	<b>—</b>	274
Allowance for amount due from a former associate	<b>4,000</b>	—
(Gain) loss on disposal of other investments	<b>(7,847)</b>	1,626
Increase in inventories	<b>(6,804)</b>	(4,134)
Decrease in amounts due from related companies	<b>—</b>	429
Decrease in trade and other receivables	<b>21,856</b>	10,028
Increase in trade and other payables	<b>14,573</b>	16,599
Increase in amounts due to related companies	<b>—</b>	43,511
<b>Net cash inflow from operating activities</b>	<b>11,830</b>	13,582

For the Year Ended 31st December, 2001

**31. ACQUISITION OF A SUBSIDIARY**

The Group acquired the entire equity interest in Originsoft in March 2000. This transaction was accounted for by the acquisition method of accounting.

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	421
Inventories	—	—
Trade and other receivables	—	4,671
Bank balances and cash	—	15
Trade and other payables	—	(414)
Bank loans	—	—
	—	4,693
Expenses incurred on acquisition	—	(1,677)
Goodwill arising on acquisition	—	71,642
	—	74,658
Satisfied by:		
Issue of ordinary shares	—	74,658
Analysis of net outflow of cash and cash equivalents on acquisition of a subsidiary:		
Expenses incurred on acquisition	—	(1,677)
Bank balances and cash acquired	—	15
Net outflow of cash and cash equivalents on acquisition of a subsidiary	—	(1,662)

Originsoft contributed approximately HK\$1,272,000 to the Group's turnover and approximately HK\$5,473,000 to the Group's loss for the period between date of acquisition and the balance sheet date.

The contribution of Originsoft to the Group's cash flows during the year was insignificant.

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 32. DISPOSAL OF SUBSIDIARIES

Summary of the effects of the disposal of subsidiaries are as follows:

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	98,883	—
Investment securities	421	—
Inventories	30,670	—
Trade and other receivables	48,938	—
Bank balances and cash	30,878	—
Trade and other payables	(99,379)	—
Amount due to related companies	(1,175)	—
Taxation	(2,139)	—
Bank loan	(60,748)	—
Minority interests	(3,421)	—
	<b>42,928</b>	—
Loss on disposal of subsidiaries	<b>(10,883)</b>	—
	<b>32,045</b>	—
Satisfied by:		
Cash consideration received	11,242	—
Trade and other receivables	20,803	—
	<b>32,045</b>	—
Net cash outflow arising from disposal:		
Bank balances and cash disposed of	(30,878)	—
Cash consideration received	11,242	—
	<b>(19,636)</b>	—



For the Year Ended 31st December, 2001

**33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	<b>Share capital and premium</b>	<b>Bank loans</b>	<b>Minority interests</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2000	712,655	63,443	4,139
Issue of shares for cash on exercise of share options	16,480	—	—
Issue of shares upon placements and subscriptions	229,280	—	—
Share issue expenses	(9,323)	—	—
Issue of shares to acquire a subsidiary	74,658	—	—
Repayment of bank loans during the year	—	(41,013)	—
Bank loans raised during the year	—	81,020	—
Advance from minority shareholders	—	—	24
Share of losses for the year	—	—	(259)
Dividend paid to minority shareholders	—	—	(329)
	<hr/>	<hr/>	<hr/>
At 31st December, 2000 and 1st January, 2001	1,023,750	103,450	3,575
On disposal of subsidiaries	—	(60,748)	(3,421)
Repayment of bank loans during the year	—	(11,610)	—
Bank loans raised during the year	—	3,738	—
Repayment to minority shareholders	—	—	(24)
Share of profit for the year	—	—	130
Dividend paid to minority shareholders	—	—	(260)
	<hr/>	<hr/>	<hr/>
At 31st December, 2001	1,023,750	34,830	—

**34. OPERATING LEASE COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Minimum lease payments under operating leases recognised in income for the year	<b>2,926</b>	2,412
	<hr/>	<hr/>

## Notes to the Financial Statements

For the Year Ended 31st December, 2001

### 34. OPERATING LEASE COMMITMENTS (continued)

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of office premises and staff quarter which fall due as follows:

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Operating leases which expire:		
Within one year	<b>3,811</b>	721
In the second to fifth year inclusive	<b>7,188</b>	82
	<b>10,999</b>	803

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarter. Leases for office premises are negotiated for a term up to three years and rentals are fixed for a term up to three years. The lease for the staff quarter is negotiated for a term of four years and rental is fixed for four years.

### 35. COMMITMENTS

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<b>347</b>	1,392

At 31st December, 2001 and 2000, the Company had no significant capital commitments.

### 36. PROVIDENT FUND SCHEME

After the introduction of the Mandatory Provident Fund ("MPF") scheme in Hong Kong, the Group has participated in an approved MPF scheme effective from 1st December, 2000 to provide MPF scheme to all eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

For the Year Ended 31st December, 2001

### 37. SUBSEQUENT EVENTS

- (a) Pursuant to agreements dated on 10th January, 2002, HHE and Fulham agreed to dispose all of their shareholdings of 370,000,000 shares in the Company to Firstchoice Management Limited ("Firstchoice") at HK\$0.2 per share.

Firstchoice is wholly owned by Mr. Liang Guo Pei, an independent third party. On completion of the said transaction, Firstchoice will become the single largest shareholder of the Company. Simultaneous completion of the above agreements has scheduled to take place on or before 10th July, 2002.

- (b) On 25th March, 2002, Sharp Ratio Investments Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement in respect of the acquisition of the remaining 55% issued share capital of Sharpo at a cash consideration of HK\$41,000,000.

### 38. RELATED PARTY TRANSACTIONS

- (a) At 31st December, 2001, bank loan of HK\$34,830,000 (2000: HK\$46,440,000) and HK\$Nil (2000: HK\$9,346,000) were guaranteed without charge by HHF and 豫港(河南)藍夢家具有限公司, wholly owned subsidiaries of HHE, respectively.
- (b) The Group did not recognise any guaranteed profit receivable from HHF for the year ended 31st December, 2000. Details of the guarantee profit arrangement with HHF are set out in note 39.
- (c) During 2000, an advance of HK\$7,683,000 was made to HHE and its subsidiaries. The advance was unsecured, interest free and was fully provided during 2000.
- (d) During 2000, the Group received rental income of HK\$112,000 from 豫港(河南)藍夢家具有限公司. Rentals were negotiated by reference to the market rate.
- (e) During 2000, the Group provided automobile repair and maintenance services to HHE and its subsidiary amounting to HK\$42,000. The charge was determined by the directors with reference to market prices for similar transactions.
- (f) Details of balance with a related company are set out in note 24.

### 39. CONTINGENCIES

- (a) In 1999, the Group acquired the entire equity interest in HH Coking from HHF. HHF was a wholly owned subsidiary of HHE, a substantial shareholder of the Company.

HHF guaranteed the profit available for distribution of HH Coking, calculated in accordance with accounting principles generally accepted in Hong Kong, to be not less than an equivalent of HK\$36,000,000 for the year ended 31st December, 2000. During the year ended 31st December, 2000, HH Coking incurred an operating loss of HK\$9,872,000.

For the Year Ended 31st December, 2001

### 39. CONTINGENCIES (continued)

- (b) In 2000, the Group acquired the entire equity interest in Originsoft from its two shareholders, Zhengzhou Shang Yuan Network Information Company Limited 鄭州商源網絡信息有限公司 ("Shang Yuan") and Mr. Yang Sheng Zhong. Originsoft is an internet software service provider based in the Henan Province, the PRC.

Shang Yuan and Mr. Yang Sheng Zhong jointly guaranteed the profit after taxation of Originsoft, calculated in accordance with accounting principles generally accepted in the PRC, to be not less than an equivalent of HK\$1,869,000 for the year ended 31st December, 2000 and HK\$9,346,000 for the year ended 31st December, 2001.

For the year ended 31st December, 2000 and 2001, Originsoft incurred a loss of HK\$952,000 and HK\$587,000 in accordance with accounting principles generally accepted in the PRC respectively. The Group claimed for the aggregate equivalent amount of HK\$12,754,000 by exercising its rights under the guaranteed profit arrangement.

- (c) The Group experienced difficulties in collecting the guaranteed profit amounts for the year ended 31st December, 2000 and 31st December, 2001 under both the HH Coking and the Originsoft guaranteed profit arrangements. The Group has issued demand letters through solicitors to the respective guarantors and is considering to take further actions in order to collect the guaranteed profit amounts. As the recoverability of the guaranteed profits for the year ended 31st December, 2001 and 31st December, 2000 was considered by the directors to be uncertain, they had not been recognised in the financial statements.