1. GENERAL

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

During the year, the Company acts as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 36 and 16 respectively. In the opinion of the directors, the ultimate holding company is the Grande International Holdings Limited, a company incorporated in the British Virgin Islands.

The previously reported figures for the year ended 31 December 2000 do not form part of the audited financial statements of the Group for the year ended 31 December 2001, and are presented for information purpose only.

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

The following is a summary of new and revised SSAPs which have been adopted in the preparation of the current year's financial statements.

– SSAP 9 (revised)	:	Events after the Balance Sheet Date
– SSAP 14 (revised)	:	Leases
– SSAP 28	:	Provisions, Contingent Liabilities and Contingent Assets
– SSAP 29	:	Intangible Assets
– SSAP 30	:	Business Combinations
– SSAP 31	:	Impairment of Assets
– SSAP 32	:	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
– Interpretation 13	:	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

The major effects of the adoption of these SSAPs to the accounting policies of the Group are as follows:

In accordance with revised SSAP 9, dividends declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. The effect of this change is to include the proposed dividend in respect of 2000 in the current year and, as a result, the dividend for the year ended 31 December 2000 is adjusted from HK$128 million to HK$84 million.

In accordance with SSAP 29, the Group's intangible assets are amortised, using the straight-line basis, over its expected useful lives but not more than 20 years from the date when the intangible asset is available for use.

In accordance with SSAP 31, the Group determines the value in use of its assets as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

In accordance with SSAP 30 and Interpretation 13, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, the impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 have been recognised retrospectively (note 28). Goodwill arising on acquisitions prior to 1 January 2001 continued to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to the income statement at the time of disposal of the relevant subsidiary or associate. Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life but not more than 20 years. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

In restating the Group's results for prior years on the basis of the new and revised polices to comply with SSAP 30 and SSAP 31, the retained profits brought forward as at 1 January 2000 has been reduced by HK$440 million, and the net profit of the Group for the year ended 31 December 2000 has been reduced by HK$987 million, in respect of the impairment of goodwill arising from the acquisition of subsidiaries and associates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

– on the sale of goods, when the goods are delivered and title, significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

Revenue recognition *(continued)*

- on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and

- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of another enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received during the year.

Associates

An associate is an enterprise, not being a subsidiary, in which the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investment in associates is stated in the consolidated balance sheet at the Group's share of the net assets. Where audited financial statements are not co-terminous with those of the Group, the share of the results is arrived at from the latest audited financial statements available or unaudited management financial statements to 31 December.

Divestment gain/loss

The gain/loss arising from divestment of interests in subsidiaries and associates is dealt with in the income statement.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life but not more than 20 years.

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

Negative goodwill

Negative goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiary or associate. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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 management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

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. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, except for freehold land which is stated at cost less impairment loss and is not depreciated. Surpluses arising on revaluation are credited directly to reserves, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

In accordance with the transitional provisions set out in paragraph 80 of Statements of Standard Accounting Practice ("SSAP") 17 (revised), "Property, plant and equipment" issued by the Hong Kong Society of Accountants in 1995, subsequent revaluations of the leasehold land and buildings of the Group, which have been carried at revalued amounts prior to 30 September 1995, will not be undertaken on a regular basis.

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

Property, plant and equipment *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life as set out below:

Freehold buildings outside Hong Kong	5 to 50 years
Long term leasehold land outside Hong Kong	99 years
Long term leasehold buildings outside Hong Kong	45 years
Medium term leasehold land and buildings in Hong Kong	20 to 40 years
Medium term leasehold land and buildings outside Hong Kong	Over the lease terms
Plant, equipment and other assets	2 to 15 years
Moulds	2 to 5 years

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged as an expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Upon the disposal of properties which have been revalued, the relevant portion of the revaluation reserve attributable to the properties realised is transferred directly to retained profits as a reserve movement.

The gain or loss on disposal or retirement of an asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all costs attributable to such development, including finance charges. No depreciation is provided on properties held for sale.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. They are stated at their open market values on the basis of annual valuations. Any surplus or deficit on revaluation is taken to the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, the surplus is credited to the income statement to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment properties revaluation reserve recognised in respect of previous valuations is released to the income statement.

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

Investment properties *(continued)*

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuations take into account the state of the buildings.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

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

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

Trademarks and patents

Trademarks and patents are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided over the estimated useful life.

Deferred development costs

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably; there is a reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria and research expenditure are expensed when incurred.

Deferred development costs are amortised, using the straight-line basis, over the expected useful lives of the products not exceeding five years, commencing in the year when the products are put into commercial production.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

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

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 such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, however, the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas associates are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

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

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

Cash equivalents

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

4. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year ended 31 December 2001:

	Notes	**2001** HK$ million	2000 HK$ million
Purchases of finished products from associates	(i)	**392**	295
Sales of goods to associates	(ii)	**336**	263
Interest from associates	(iii)	**17**	40
Purchase of trademarks and patents from an associate	(iv)	**50**	–
Interest paid to a related company	(v)	**8**	–

In addition, during the year ended 31 December 2001, the Group provided guarantees of trade finance banking facilities to certain associates (note 31).

Notes:

(i) The directors consider that the purchases of finished products were made according to prices and conditions similar to those offered by non-related suppliers of the Group.

(ii) The directors consider that the sales of goods were made according to prices and conditions similar to those offered to non-related major customers of the Group.

(iii) The interest from associates arose from loans, the terms and other details of which are set out in note 16 to the financial statements.

(iv) The consideration was mutually agreed by the parties involved.

(v) Interest was charged at prevailing market rate on the outstanding balance.

5. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts; and corporate finance and investment income but excludes intra-group transactions.

An analysis of the Group's turnover by principal activity for the year is as follows:

	2001	2000
	HK$	HK$
	million	million
By principal activity:		
Electronics manufacturing services	**4,227**	6,356
Magnetic media	**1,174**	1,253
Branded distribution	**932**	441
Financial services	**1,485**	259
	7,818	8,309

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

			(Note 1)
			(As previously
		(Restated)	reported)
	2001	2000	2000
	HK$	HK$	HK$
	million	million	million
Depreciation:			
Owned property, plant and equipment	**160**	187	187
Operating lease rentals:			
Land and buildings	**32**	16	16
Interest on:			
Bank overdrafts and loans wholly repayable within five years	**56**	95	95
Other loans wholly repayable within five years	**–**	1	1
Auditors' remuneration	**6**	6	6
Amortisation of other assets	**16**	62	62
Staff costs	**251**	300	300
Write off of goodwill	**12**	987	–
Impairment loss recognised in respect of properties held for sale	**37**	–	–
Provision for long term investments	**44**	24	24
Research and development expenditure	**22**	43	43
Loss/(gain) on disposal of property, plant and equipment	**9**	(3)	(3)
Interest income	**(18)**	(35)	(35)

7. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	2001	2000
	HK$ million	HK$ million
Fees	**–**	–
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	**20**	15
Bonuses paid and payable	**4**	3
	24	18

The number of directors whose remuneration fell within the bands set out below is as follows:

HK$	**2001** **Number of directors**	2000 Number of directors
Nil – 1,000,000	**7**	9
1,000,001 – 1,500,000	**1**	1
1,500,001 – 2,000,000	**1**	2
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**2**	1
4,000,001 – 4,500,000	**–**	1
5,000,001 – 5,500,000	**1**	–
6,000,001 – 6,500,000	**1**	–

There was no arrangement under which a director had waived or agreed to waive any remuneration.

The directors' fee payable to each of the independent non-executive directors of the Company for the year ended 31 December 2001 amounted to HK$100,000 per annum (2000: HK$100,000).

7. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS *(continued)*

Employee Costs

	2001	2000
	HK$	HK$
	million	million
Basic salaries, housing, other allowances and benefits in kind	**4**	6
Bonuses paid and payable	**4**	6
	8	12

The number of non-directors whose remuneration fell within the bands set out below is as follows:

HK$	**2001 Number of non-directors**	2000 Number of non-directors
3,000,001 – 3,500,000	**1**	1
4,000,001 – 4,500,000	**–**	2
4,500,001 – 5,000,000	**1**	–

The five individuals whose emoluments were the highest in the Group during the year included three (2000: two) directors and two (2000: three) non-directors of the Company, details of whose remuneration are set out above.

8. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK$ million	HK$ million
Current year provision		
Hong Kong	**6**	3
Overseas	**–**	4
Under provision in prior year		
Hong Kong	**–**	2
Overseas	**–**	5
Deferred tax		
Hong Kong	**(2)**	(2)
Share of tax of associates	**–**	1
	4	13

9. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit/(loss) attributable to shareholders dealt with in the financial statements of the Company is HK$429 million (2000 restated: HK$40 million).

10. DIVIDENDS

	2001	(Restated) 2000	(Note 1) (As previously reported) 2000
	HK$ million	HK$ million	HK$ million
2001 interim dividend of HK8 cents per share on 400.2 million shares	**32**	–	–
2000 final dividend of HK20 cents per share on 399.9 million shares	**80**	–	80
2000 interim dividend of HK12 cents per share on 396.8 million shares	**–**	48	48
1999 final dividend of HK10 cents per share on 364.9 million shares	**–**	36	–
	112	84	128

The directors recommend, subject to compliance with regulatory requirements, if any, a dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the First Section of the Tokyo Stock Exchange, for every two shares of the Company being held by the shareholder on the register of members on 11 June 2002. The market value at close of business on 24 April 2002 of SEC was 11 Yen per share which equates to HK33 cents per share.

2000 final dividend of HK20 cents per share on 399.9 million shares of HK$80 million was proposed after the balance sheet date, and not recognised as a liability at 31 December 2000.

11. EARNINGS/(LOSS) PER SHARE

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

	Group		
			(Note 1) (As previously reported)
		(Restated)	
	2001	2000	2000
	HK$ million	HK$ million	HK$ million
Earnings/(loss) for the purposes of basic earnings/(loss) per share: Net profit/(loss) attributable to shareholders	**457**	(581)	406
Effect of dilutive potential ordinary shares: Interest on convertible bonds of a subsidiary	**–**	1	1
Adjustment to the share of results of subsidiaries based on dilution of their earnings/(loss) per share	**–**	(4)	(4)
Eanings/(Loss) for the purposes of diluted earnings/(loss) per share	**457**	(584)	403
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**400.2**	337.9	337.9
Effect of dilutive potential ordinary shares: Warrants	**–**	3.1	3.1
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**400.2**	341.0	341.0

Diluted earnings per share has not been presented for 2001 as the Company did not have any potential ordinary shares and no diluting events existed during that year.

11. EARNINGS/(LOSS) PER SHARE *(continued)*

The adjustment to comparative basic and diluted earnings/(loss) per share of 2000, arising from the changes in accounting policies is as follows:

	Basic HK cents	**Diluted** HK cents
Reported figures before adjustments	1.20	1.18
Adjustments arising from the adoption of SSAP 30	(2.92)	(2.89)
Restated	(1.72)	(1.71)

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$ million	**Plant, equipment and other assets** HK$ million	**Moulds** HK$ million	**Total** HK$ million
Cost or valuation:				
At beginning of year	1,047	1,142	169	2,358
Foreign currency adjustment	(1)	(8)	–	(9)
Additions	6	84	12	102
Arising on acquisition of subsidiaries	1	14	–	15
Transfer	–	1	(1)	–
Disposal of subsidiaries	(4)	–	–	(4)
Disposals	(22)	(40)	–	(62)
At 31 December 2001	1,027	1,193	180	2,400
Accumulated depreciation:				
At beginning of year	78	546	112	736
Foreign currency adjustment	–	(4)	–	(4)
Provided during the year	24	117	19	160
Disposals	(1)	(26)	–	(27)
At 31 December 2001	101	633	131	865
Net book values:				
At 31 December 2001	**926**	**560**	**49**	**1,535**
At 31 December 2000	969	596	57	1,622

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

Land and buildings comprise:

	Group 2001 HK$ million	2000 HK$ million
Freehold land and buildings outside Hong Kong:		
At cost	**23**	24
Long term leasehold land and buildings outside Hong Kong:		
At cost	**68**	68
Medium term leasehold land and buildings in Hong Kong:		
At cost	**15**	14
At 1993 professional valuation	**279**	279
	294	293
Medium term leasehold land and buildings outside Hong Kong:		
At cost	**337**	357
At 1993 professional valuation	**305**	305
	642	662
Total cost or valuation	**1,027**	1,047

The valuation of medium term leasehold land and buildings in Hong Kong of HK$301 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 December 1993. During the year ended 31 December 1998, HK$22 million of these leasehold land and buildings was disposed.

The valuation of medium term leasehold land and buildings outside Hong Kong of HK$281 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 January 1993.

The valuation of medium term leasehold land and buildings outside Hong Kong of HK$24 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 December 1993.

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

The Group has adopted the transitional arrangement set out in SSAP 17 (revised) "Property, plant and equipment" of not making subsequent regular revaluations on the above premises which have been carried at revalued amounts prior to 30 September 1995.

Had the revalued assets been stated at their cost less accumulated depreciation, the carrying amount of land and buildings as at 31 December 2001 would be restated at HK$570 million (2000: HK$605 million).

Certain of the above properties and plant and machinery held by the Group were pledged to secure banking facilities (note 33).

13. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK$ million	HK$ million
At beginning of year	**–**	33
Disposal	**–**	(2)
Disposal of subsidiaries	**–**	(31)
At 31 December	**–**	–

14. PROPERTIES HELD FOR SALE

	Group	
	2001	2000
	HK$ million	HK$ million
At fair value		
At beginning of year	**166**	175
Foreign currency adjustment	**(5)**	(9)
Impairment loss recognised	**(37)**	-
At 31 December	**124**	166

The properties held for sale are situated outside Hong Kong and held under freehold leases. In years prior to 1998, these properties were classified as current assets. During the year ended 31 December 1998, the management of the Company changed the classification of these properties to non-current assets as it is envisaged that the sale is unlikely to be completed within the next twelve months based on the current market situation.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$ million	HK$ million
Unlisted shares, at cost	**1,237**	1,237

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The Company has agreed not to demand for repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Particulars of the principal subsidiaries are set out in note 36 to the financial statements.

16. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK$ million	HK$ million
Share of net assets other than goodwill	**–**	409

The amounts due from associates included HK$83 million (2000: HK$105 million) which bears interest at commercial rates. The interest income from associates during the year amounted to HK$17 million (2000: HK$40 million). The remaining balances with associates were in respect of trading activities and were unsecured, interest-free and had no fixed terms of repayment.

16. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the Group's principal associates are as follows:

Name	Notes	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group 2001	2000	Principal activities
Nakamichi Corporation ("Nakamichi") #	(a) and (c)	Japan	**45%**	45%	Development, manufacture and sales of acoustics and audio consumer electronic products
GrandeTel Technologies Inc. ("GrandeTel") +	(b)	Canada	**42%**	30%	Telecommunications
Ross Group Plc *		United Kingdom	**48%**	48%	Manufacture, sale and distribution of automotive products and power supplies

\# *The Group's equity interest in Nakamichi is held as to 45% by the Company and certain subsidiaries of the Company and 7% by certain of the Group's associates. The Group is not in a position to exercise effective control over this investee company and it is therefore not accounted for as a subsidiary.*

\+ *Traded over the counter on the Nasdaq Stock Exchange.*

* *Listed on the London Stock Exchange.*

(a) Nakamichi was acquired in January 1997 as a 70% owned subsidiary. Immediately after the acquisition, a share swap arrangement with an associate and the conversion of certain bank debts of Nakamichi into equity were effected under which the Group's interest in Nakamichi was reduced to 56%. Following a further divestment of interest in Nakamichi in December 1997, the Group's effective equity interest in Nakamichi was reduced to 52%, of which only a 45% equity interest was held by the Company and its subsidiaries.

On 19 February 2002, Nakamichi applied to the Tokyo District Court to initiate the Civil Restructuring Proceeding ("CRP") to allow it to continue to operate and to propose a restructuring scheme. In early March, the Tokyo District Court approved the CRP application. The Company is a sponsor to the CRP. The outcome of the CRP will be determined in July or August 2002 when the creditors will vote in the Restructuring Plan to be put forth by the management of Nakamichi. The debts due by Nakamichi to the Company and its subsidiaries are substantially secured by the assets of its wholly owned subsidiaries. The directors of the Company believe the amounts are substantially recoverable.

16. INTERESTS IN ASSOCIATES *(continued)*

(b) The following event which occurred prior to the Group's acquisition of the interest in GrandeTel in 1994 is still pending as at the date of the financial statements:

Four class action lawsuits alleging securities fraud committed by the former GrandeTel chairman and secretary were brought against GrandeTel and other defendants before the Group's acquisition of the interest in GrandeTel. The plaintiffs were seeking compensatory damages of an unspecified amount, plus legal fees and other costs and expenses, for persons who purchased GrandeTel's shares within a specific period. An agreement was reached for GrandeTel to settle these class actions with cash of approximately US$5 million and 10 million new shares of US$0.50 each to be issued by GrandeTel plus interest. In addition, under the agreement, the plaintiffs will have the option to sell the shares to GrandeTel at their issuance price at any time for a period not to exceed 120 business days after the second anniversary of the effective date of the settlement. In the event that GrandeTel is unable to honour the put option, it will be honoured by the Company. The new shares were issued to the plaintiffs in August 1999. In March 2001, GrandeTel accepted the put option exercised by the plaintiffs which was financed by the Company. The amount paid was about US$3.5 million. The Company has recognised full impairment loss on its investment in GrandeTel as recovery is uncertain.

(c) The following details have been extracted from the audited financial information of the Group's significant associate:

	Nakamichi	
	2001	2000
	JPY million	JPY million
Turnover	**4,414**	8,878
Operating loss	**(29,730)**	(1,557)
Net loss for the year	**(29,735)**	(1,562)
Property, plant and equipment	**634**	1,050
Other assets	**14**	19
Long term investments	**8,733**	32,642
Current assets	**6,616**	7,951
Current liabilities	**14,348**	9,227
Non-current liabilities	**5,908**	6,960

17. LONG TERM INVESTMENTS

	Group 2001 HK$ million	Group 2000 HK$ million
Listed investments, at market value		
Hong Kong	**12**	21
Outside Hong Kong	**5**	6
Unlisted investments, at fair value	**108**	151
	125	178

Included in the unlisted investments were convertible instruments amounting to HK$42 million (2000: HK$42 million) which were issued by associates of the Group.

18. TRADEMARKS AND PATENTS

	Group 2001 HK$ million	Group 2000 HK$ million
At beginning of year	**–**	–
Additions	**389**	–
At 31 December	**389**	–

19. OTHER ASSETS

	Group 2001 HK$ million	Group 2000 HK$ million
Deferred development costs:		
At beginning of year	**19**	–
Additions	**9**	19
Acquisition of subsidiaries	**–**	32
Amortisation	**(16)**	(32)
At 31 December	**12**	19

20. GOODWILL/(NEGATIVE GOODWILL)

	Goodwill		Negative goodwill	
	2001	2000	**2001**	2000
	HK$ million	HK$ million	**HK$ million**	HK$ million
Gross amount				
At beginning of year	**–**	–	**–**	–
Additional interest in subsidiaries	**76**	–	**–**	–
Acquisition of subsidiaries	**–**	–	**(10)**	–
At 31 December	**76**	–	**(10)**	–
Amortisation/release				
At beginning of year	**–**	–	**–**	–
Provided for the year	**–**	–	**–**	–
At 31 December	**–**	–	**–**	–
Net amount as at 31 December	**76**	–	**(10)**	–

21. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	Group	
	2001	2000
	HK$ million	HK$ million
0 – 3 months	**1,439**	1,584
3 – 6 months	**38**	15
Over 6 months	**127**	24
	1,604	1,623

At 31 December 2001, included in the amount of accounts, bills and other receivables was an amount of HK$618 million (2000: HK$513 million) due from a former subsidiary, Omnitech Group Limited (formerly O2New Technology Limited), ("O2New"). The amount is unsecured and bears interest at 2% (2000: 3%) above Hong Kong dollars prime rate.

22. INVENTORIES

	Group 2001 HK$ million	Group 2000 HK$ million
Raw materials	**396**	759
Work in progress	**51**	75
Finished goods	**250**	369
	697	1,203

23. BANK LOANS

	Group 2001 HK$ million	Group 2000 HK$ million	Company 2001 HK$ million	Company 2000 HK$ million
Secured bank loans wholly repayable:				
Within one year	**220**	653	**–**	–
In the second year	**28**	–	**–**	–
In the third to fifth years, inclusive	**84**	–	**–**	–
	332	653	**–**	–
Portion classified as current liabilities	**(220)**	(653)	**–**	–
	112	–	**–**	–
Unsecured bank loans wholly repayable:				
Within one year	**166**	114	**114**	103
In the second year	**16**	–	**16**	–
In the third to fifth years, inclusive	**17**	–	**17**	–
	199	114	**147**	103
Portion classified as current liabilities	**(166)**	(114)	**(114)**	(103)
	33	–	**33**	–
Non-current portion	**145**	–	**33**	–

24. ACCOUNTS AND BILLS PAYABLE

The aged analysis of accounts and bills payable is as follows:

	Group	
	2001	2000
	HK$ million	HK$ million
0 – 3 months	**790**	1,414
3 – 6 months	**14**	270
Over 6 months	**382**	46
	1,186	1,730

Included above is an amount of HK$254 million due to a related company of which a director of the Company has a deemed beneficial interest. The amount is unsecured, bearing interest at prevailing market rate and is repayable on demand.

25. DEFERRED TAX

	Group	
	2001	2000
	HK$ million	HK$ million
Balance at beginning of year	**4**	9
Arising on acquisition of subsidiaries	**1**	5
Disposal of subsidiaries	**–**	(8)
Write back of over provision (note 8)	**(2)**	(2)
Balance at 31 December	**3**	4

The principal components of the Group's deferred tax liabilities provided for/(deferred tax assets recognised), and the amounts not provided/(not recognised) are as follows:

	Group			
	Provided		Not provided	
	2001	2000	**2001**	2000
	HK$ million	HK$ million	**HK$ million**	HK$ million
Tax losses carried forward	**–**	–	**(55)**	(49)
Accelerated depreciation allowances	**3**	4	**2**	2
Other timing differences	**–**	–	**(10)**	(9)
	3	4	**(63)**	(56)

25. DEFERRED TAX *(continued)*

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

The revaluation of the Group's land and buildings does not constitute a timing difference and consequently, the amount of potential deferred tax thereon has not been quantified.

26. SHARE CAPITAL

	Number of ordinary shares of HK$2.50 each million	Number of ordinary shares of HK$0.10 each million	Amount HK$ million
Authorised:			
At 1 January 2000, 31 December 2000 and 1 January 2001	400	–	1,000
Increase in authorised share capital	600	–	1,500
Capital reduction	(1,000)	1,000	(2,400)
At 31 December 2001	**–**	**1,000**	**100**
Issued and fully paid:			
At 1 January 2000	261	–	653
Issue of new shares	104	–	259
Exercise of warrants	35	–	88
At 31 December 2000 and 1 January 2001	400	–	1,000
Issue of new shares	–	–	1
Capital reduction	(400)	400	(961)
At 31 December 2001	**–**	**400**	**40**

On 30 March 2000, Barrican Investments Corporation ("BIC"), the controlling shareholder of the Company, placed 26,000,000 shares of the Company at HK$4.25 per share to certain independent investors. Subsequent to the placement, BIC's interest in the Company was reduced from 74.9% to 64.9%.

On 30 March 2000, the Company entered into two subscription agreements with BIC, pursuant to which BIC would subscribe for 52,261,927 shares (the "First Subscription") and 51,300,530 shares (the "Second Subscription") at HK$4.25 per share.

Pursuant to the agreement regarding the First Subscription dated 30 March 2000, BIC subscribed for 52,261,927 shares, representing approximately 20.0% of the Company's issued share capital as at 30 March 2000 and approximately 16.7% of its issued share capital as enlarged by the First Subscription, for a total subscription price of HK$222 million. The First Subscription Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 June 1999, and were issued to BIC on 3 April 2000, pursuant to a general mandate which was granted to the Directors.

26. SHARE CAPITAL *(continued)*

Pursuant to the agreement regarding the Second Subscription dated 30 March 2000, BIC subscribed for 51,300,530 shares, representing approximately 19.6% of the Company's issued share capital as at 30 March 2000 and approximately 14.1% of its issued share capital as enlarged by the First Subscription and the Second Subscription, for a total subscription price of HK$218 million. By virtue of the interests of BIC in the Company, the Second Subscription constitutes a connected transaction for the Company under the Listing Rules, and it was approved by the Independent Shareholders at the Special General Meeting on 23 May 2000.

It was the intention of the Company to use net proceeds of HK$438 million as additional working capital for its business of the manufacture of consumer electronic audio and video products.

The directors also believed that the above would result in the broadening of the Company's shareholders base.

The resolution for increasing the authorised share capital of the Company from HK$1 billion divided into 400 million shares of HK$2.5 each (the "Shares") to HK$2.5 billion by the creation of an additional 600 million Shares was approved by the shareholders at the Special General Meeting on 9 January 2001.

On 5 December 2001, a Special General Meeting of the Company was held and the resolution for Capital Reduction of the Company was approved by the shareholders. The effects of the Capital Reduction were as follows -

(a) the paid up capital and nominal value of the issued Shares was reduced by HK$2.40 per Share by cancelling an equivalent amount of paid up capital per Share so that the nominal value of each Share has been reduced from HK$2.50 to HK$0.10. Based upon the number of Shares in issue as at 5 December 2001, the issued share capital of the Company of HK$1,001 million consisting of 400 million Shares has been reduced by HK$961 million to HK$40 million consisting of 400 million New Shares;

(b) the credit amount of HK$961 million arising from the reduction referred to in (a) above was credited to the contributed surplus account of the Company. The amounts in the contributed surplus account of the Company can be applied in the future for distribution to the shareholders of the Company; and

(c) all of the authorised but unissued share capital of the Company, including the additional authorised but unissued share capital resulting from the reduction referred to in (a) above, in the total amount of HK$2,460 million was cancelled and subsequently increased by HK$60 million by the creation of 600 million New Shares. On completion, the authorised share capital of the Company is now HK$100 million comprising 1,000 million New Shares, of which 400 million New Shares were issued and fully paid.

26. SHARE CAPITAL *(continued)*

Share options

Pursuant to a share option scheme (the "Share Option Scheme") of the Company adopted on 26 November 1990, the board of directors may grant options to eligible employees of the Company, including executive directors, to subscribe for shares of the Company. The subscription price is the higher of the nominal value of the Company's shares or 80% of the average of the closing share prices for the five trading days immediately preceding the date of grant of the option. The maximum nominal amount of shares in respect of which options may be granted, together with options exercised and options then outstanding under the Share Option Scheme, may not exceed 10% of the aggregate nominal amount of the issued share capital of the Company from time to time. In addition, the maximum number of share options granted to any one person may not exceed 25% of the total number of shares for which options may be granted under the Share Option Scheme. The options granted have to be exercised within 2 years commencing on the expiry of 6 months after the date of acceptance of the grant.

There were no options outstanding during the years ended 31 December 2000 and 2001.

Warrants

Pursuant to a shareholders' resolution and as part of the interim dividend declared for the six months ended 30 June 1997, a bonus issue of warrants was made on the basis of one bonus warrant for every five ordinary shares then held by shareholders (other than overseas shareholders).

Each warrant entitled the holder to subscribe for one fully paid ordinary share of HK$2.50 each in the Company at any time from the date of issue up to and including 15 October 2000 at a subscription price, subject to adjustment, of HK$4.50 per share.

None of the 52,261,927 units of warrants granted in 1997 had been exercised and all were outstanding as at 31 December 1999.

As a result of the exercise of warrants from March 2000 to October 2000, 35,055,228 ordinary shares of HK$2.50 each in the Company were issued at a subscription price of HK$4.50 per share and 17,206,699 units of warrants lapsed upon their expiry, accordingly, there were no warrants outstanding as at 31 December 2001.

27. SHARE PREMIUM

	Group	
	2001	2000
	HK$ million	HK$ million
At beginning of year	**253**	4
Issue of new shares	**1**	181
Exercise of warrants	**–**	70
Share issue expenses	**–**	(2)
At 31 December	**254**	253

28. PRIOR PERIOD ADJUSTMENTS

The financial effect of the adoption of the new and revised accounting policies described in note 2 to the financial statements prior to 1 January 2000 is summarised below:

2000	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million
Group					
At 1 January 2000 as originally stated	2	113	(171)	1,055	999
Derecognition of liability for final dividend for 1999	–	–	–	36	36
Retrospective recognition of impairment of goodwill held in reserves	–	440	–	(440)	–
At 1 January 2000 as restated	2	553	(171)	651	1,035
Company					
At 1 January 2000 as originally stated	–	361	–	197	558
Derecognition of asset for final dividend from a subsidiary for 1999	–	–	–	(120)	(120)
Derecognition of liability for final dividend for 1999	–	–	–	36	36
At 1 January 2000 as restated	–	361	–	113	474

29. RESERVES

2000	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million
Group						
At 1 January 2000 as restated	–	2	553	(171)	651	1,035
Arising on consolidation of overseas subsidiaries	–	–	–	(23)	–	(23)
Share of reserve movements of associates	–	–	(4)	16	–	12
Reversed on disposal of subsidiaries	–	–	(55)	(2)	–	(57)
Elimination of goodwill arising from acquisition of subsidiaries	–	–	(724)	–	–	(724)
Elimination of goodwill arising from acquisition of additional interests in subsidiaries	–	–	(238)	–	–	(238)
Elimination of goodwill arising from acquisition of additional interests in associates	–	–	(32)	–	–	(32)
Surplus on revaluation of long term equity securities	–	1	–	–	–	1
Retrospective recognition of impairment of goodwill held in reserves	–	–	987	–	(987)	–
Profit for the year	–	–	–	–	406	406
Dividends	–	–	–	–	(84)	(84)
At 31 December 2000	–	3	487#	(180)	(14)	296
The reserves are retained as follows:						
Company and subsidiaries	–	3	487	(151)	113	452
Associates	–	–	–	(29)	(127)	(156)
	–	3	487	(180)	(14)	296

The balance of capital reserve comprise goodwill and negative goodwill of HK$117 million and HK$244 million, respectively.

2000	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million
Company						
At 1 January 2000 as restated	–	–	361	–	113	474
Profit for the year	–	–	–	–	40	40
Dividends	–	–	–	–	(84)	(84)
At 31 December 2000	–	–	361	–	69	430

29. RESERVES *(continued)*

2001	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million
Group						
At 1 January 2001	–	3	487	(180)	(14)	296
Arising from capital reduction	961	–	–	–	–	961
Arising on consolidation of overseas subsidiaries	–	–	–	(24)	–	(24)
Share of reserve movements of associates	–	–	–	17	–	17
Reversed on disposal and partial divestment of interests in subsidiaries and associates	–	–	(4)	7	–	3
Surplus on revaluation of equity securities	–	182	–	–	–	182
Profit for the year	–	–	–	–	457	457
Dividends	–	–	–	–	(112)	(112)
At 31 December 2001	961	185	483#	(180)	331	1,780
The reserves are retained as follows:						
Company and subsidiaries	961	185	483	(178)	557	2,008
Associates	–	–	–	(2)	(226)	(228)
	961	185	483	(180)	331	1,780

\# The balance of capital reserve comprise goodwill and negative goodwill of HK$124 million and HK$244 million, respectively.

2001	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million
Company						
At 1 January 2001	–	–	361	–	69	430
Arising from capital reduction	961	–	–	–	–	961
Profit for the year	–	–	–	–	429	429
Dividends	–	–	–	–	(112)	(112)
At 31 December 2001	961	–	361	–	386	1,708

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 **HK$ million**	(Restated) 2000 HK$ million	(Note 1) (As previously reported) 2000 HK$ million
Profit/(loss) from operating activities	**687**	(72)	915
Interest income	**(18)**	(35)	(35)
Depreciation	**160**	187	187
Write off of goodwill	**12**	987	–
Amortisation of other assets	**16**	62	62
Loss/(gain) on disposal of property, plant and equipment	**9**	(3)	(3)
Gain on disposal of interests in certain subsidiaries and associates	**(217)**	(522)	(522)
Impairment loss recognised in respect of properties held for sale	**37**	–	–
Provision for long term investments	**44**	24	24
Write back of provision for long term investments	**–**	(1)	(1)
Preference share redemption expenses	**13**	–	–
(Increase)/decrease in accounts, bills and other receivables	**(100)**	2,146	2,146
Decrease/(increase) in inventories	**529**	(39)	(39)
Decrease in short term investments	**18**	47	47
Decrease/(increase) in prepayments, deposits and other assets	**55**	(33)	(33)
Increase in amounts due from associates	**(344)**	(104)	(104)
Decrease in accounts and bills payables	**(573)**	(3,179)	(3,179)
(Decrease)/increase in accrued liabilities and other payable	**(65)**	51	51
Net cash inflow/(outflow) from operating activities	**263**	(484)	(484)

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the years

	Share capital (including premium and contributed reserve) HK$ million	**Bank borrowings** HK$ million	**Minority interests** HK$ million
At 1 January 2000	657	1,013	705
Net cash inflow/(outflow) from financing	596	(35)	(2)
Arising from acquisition of subsidiaries	–	654	219
Arising from acquisition of additional interests in subsidiaries	–	–	10
Arising from disposal of subsidiaries	–	(299)	(74)
Minority shareholders' share of:			
Profit for the year	–	–	218
Exchange fluctuation reserve	–	–	(14)
At 31 December 2000 and 1 January 2001	1,253	1,333	1,062
Net cash inflow/(outflow) from financing	2	(113)	(31)
Arising from acquisition of subsidiaries	–	–	21
Arising from rights issue of a subsidiary	–	–	11
Arising from increase investment in a subsidiary	–	–	(122)
Arising from disposal and partial divestment of interests in subsidiaries and associates	–	–	(216)
Redemption of preference share issued by a subsidiary	–	–	(38)
Minority shareholders' share of:			
Profit for the year	–	–	71
Investment revaluation reserve	–	–	(2)
Exchange fluctuation reserve	–	–	(4)
At 31 December 2001	1,255	1,220	752

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchases of subsidiaries

	2001 HK$ million	2000 HK$ million
Net assets acquired:		
Property, plant and equipment	**15**	780
Interest in associates	**–**	39
Other assets	**–**	62
Cash and bank balances	**41**	119
Accounts and bills receivables	**32**	2,873
Inventories	**30**	1,021
Prepayments, deposits and other assets	**15**	32
Bank overdraft	**–**	(24)
Trust receipt loans	**–**	(338)
Accounts and bills payable	**(34)**	(4,384)
Accrued liabilities and other payable	**(5)**	(88)
Bank loans	**–**	(316)
Provision for tax	**(1)**	(3)
Deferred tax	**(1)**	(5)
Minority interests	**–**	(194)
	92	(426)
(Negative goodwill)/goodwill arising on acquisition	**(10)**	724
	82	298
Represented by:		
Cash consideration paid	**8**	92
Discharged through accounts receivable	**53**	181
Minority interests	**21**	25
	82	298

The subsidiaries acquired during the year 2000 contributed HK$582 million to the Group's net operating cash flows, paid HK$7 million in respect of returns on investments and servicing of finance, paid HK$11 million in respect of taxation and paid HK$55 million in respect of investing activities.

The subsidiaries acquired during the year ended 31 December 2001 had no material effect on the cashflow of the Group.

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchases of subsidiaries *(continued)*

The analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001	2000
	HK$ million	HK$ million
Cash consideration paid	**(8)**	(92)
Cash and bank balances of acquired subsidiaries	**41**	119
Bank overdraft of acquired subsidiaries	**–**	(24)
	33	3

(d) Disposal, deemed disposal and partial divestment of interests in subsidiaries and associates

Summary of the effects on disposal, deemed disposal and partial divestment of interests in subsidiaries and associates

	2001	2000
	HK$ million	HK$ million
Net assets disposed of:		
Property, plant and equipment	**4**	318
Investment properties	**–**	31
Interests in an associate	**329**	–
Cash and bank balances	**–**	18
Accounts, bills and other receivables	**–**	720
Inventories	**–**	570
Prepayments and deposits	**1**	16
Amounts due from associates	**–**	3
Bank overdraft	**–**	(14)
Trust receipt loans	**–**	(182)
Accounts and bills payable	**(5)**	(694)
Accrued liabilities and other payables	**(1)**	(238)
Bank loans	**–**	(16)
Provision for tax	**–**	(2)
Deferred tax	**–**	(8)
Minority interests	**–**	(11)
	328	511
Gain on disposal of interests in certain subsidiaries and associates	**217**	522
	545	1,033

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Disposal, deemed disposal and partial divestment of interests in subsidiaries and associates *(continued)*

	2001	2000
	HK$	HK$
	million	million
Represented by:		
Cash consideration (paid)/received	**(32)**	641
Trademarks and patents	**364**	–
Accounts receivable	**–**	102
Long term investments	**–**	16
Interests in an associate	**–**	53
Convertible bonds issued by a subsidiary	**–**	101
Release of reserves	**(3)**	57
Minority interests	**216**	63
	545	1,033

The subsidiaries disposed of during the year 2000 utilised HK$252 million of the Group's net operating cash flows, paid HK$6 million in respect of returns on investments and servicing of finance, paid HK$2 million in respect of taxation, utilised HK$25 million in respect of investing activities and paid HK$8 million for financing activities.

The subsidiaries disposed of during the year ended 31 December 2001 had no material effect on the cashflow of the Group.

The analysis of net (outflow)/inflow of cash and cash equivalents in respect of the disposal, deemed disposal and partial divestment of interests in subsidiaries and associates is as follows:

	2001	2000
	HK$	HK$
	million	million
Cash consideration (paid)/received	**(32)**	641
Cash and bank balances of disposed subsidiaries	**–**	(18)
Bank overdraft of disposed subsidiaries	**–**	14
	(32)	637

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(e) Major non-cash transactions

Purchase consideration for subsidiaries of HK$53 million during the year was discharged through accounts receivable.

Purchase consideration for trademarks and patents of HK$25 million during the year was discharged through accounts receivable.

Purchase consideration for marketable securities of HK$63 million during the year was discharged through accounts receivable.

31. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	**2001**	2000
	HK$ million	HK$ million	**HK$ million**	HK$ million
Bills discounted with recourse	**41**	11	**–**	–
Guarantee of trade finance banking facilities granted to:				
Subsidiaries	**–**	–	**1,098**	1,171
Associates	**86**	35	**86**	35
Former subsidiaries	**–**	14	**–**	14
	86	49	**1,184**	1,220

All trade bills discounted at the balance sheet date were subsequently honoured by customers with no losses to the Group.

32. COMMITMENTS

	Group	
	2001	2000
	HK$ million	HK$ million
(a) Capital commitments:		
Contracted for	**6**	1
Authorised, but not contracted for	**–**	5
	6	6
(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	**33**	29
Later than one year and not later than five years	**28**	37
Later than five years	**2**	1
	63	67

(c) The group had commitments under foreign exchange forward contracts to sell approximately US$47 million, equivalent to approximately HK$370 million (2000: nil) and to purchase of JPY5,968 million, equivalent to approximately HK$358 million (2000: nil) at fixed exchange rates.

33. BANKING FACILITIES

Certain banking facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

		Group	
		2001	2000
		HK$ million	HK$ million
(i)	Legal charges over medium term leasehold land and buildings in Hong Kong and marketable securities	**667**	250
(ii)	Pledge of medium term leasehold land and buildings outside Hong Kong	**113**	124
(iii)	Pledge of inventories	**19**	180
(iv)	Pledge of accounts receivable and bank deposits	**59**	331
		858	885

34. PROVIDENT FUND SCHEMES

From 1 December 2000 onwards, all the staff of the Group in Hong Kong are offered the opportunity to join the Mandatory Provident Fund Scheme (the “”MPF Scheme””), which is introduced by the Hong Kong Special Administration Region. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of each employee’s monthly salaries up to a maximum of HK$1,000. The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

35. SEGMENT REPORTING

(a) Business segments

The core divisions of the Group comprises of:

Divisions		Principal activities
(i)	Electronics manufacturing services	Manufacture and trading of electronic products
(ii)	Magnetic media	Manufacture and trading of computer magnetic heads
(iii)	Branded distribution	Trading of audio and video products
(iv)	Financial services	Provision of foreign currencies exchange, corporate finance, investment and financial advisory and other services

35. SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

2001	Electronics manufacturing services HK$ million	Magnetic media HK$ million	Branded distribution HK$ million	Financial services HK$ million	Inter-segment elimination HK$ million	Consolidated HK$ million
Revenue:						
Revenue from external customers	4,227	1,174	932	1,485	–	7,818
Inter-segment sales	59	–	122	89	(270)	–
Total revenue	4,286	1,174	1,054	1,574	(270)	7,818
Result:						
Divisional operating results	135	205	146	126	–	612
Unallocated corporate expenses						(45)
Operating profit						567
Loss on disposal of property, plant and equipment	(9)	–	–	–	–	(9)
Gain on disposal of interests in certain subsidiaries and associates	19	–	–	198	–	217
Impairment						
– goodwill	–	–	–	(12)	–	(12)
– properties held for sale	–	–	–	(37)	–	(37)
– long-term investments	–	(44)	–	–	–	(44)
Preference share redemption expenses	–	–	–	(13)	–	(13)
Share of results of associates	–	–	(92)	(7)	–	(99)
Interest income						18
Interest expenses						(56)
Taxation						(4)
Minority interests						(71)
Profit attributable to shareholders						457
Assets:						
Division assets	2,679	1,193	978	1,911	(919)	5,842
Liabilities:						
Division liabilities	2,411	406	531	655	(993)	3,010
Other information:						
Depreciation and amortisation	121	24	2	29		176
Capital expenditure	65	107	395	9		576

35. SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

	Electronics manufacturing services HK$ million	Magnetic media HK$ million	Branded distribution HK$ million	Financial services HK$ million	Inter-segment elimination HK$ million	Consolidated HK$ million
2000						
Revenue:						
Revenue from external customers	6,356	1,253	441	259	–	8,309
Inter-segment sales	138	–	–	94	(232)	–
Total revenue	6,494	1,253	441	353	(232)	8,309
Result:						
Divisional operating results	15	232	27	112	–	386
Unallocated corporate expenses						(8)
Operating profit						378
Gain/(Loss) on disposal of property, plant and equipment	7	–	–	(4)	–	3
Gain on disposal of interests in certain subsidiaries and associates	–	–	–	522	–	522
Impairment						
– goodwill	(952)	–	(3)	(32)	–	(987)
– long-term investments	(11)	(12)	–	–	–	(23)
Share of results of associates	(130)	–	(47)	(5)	–	(182)
Interest income						35
Interest expenses						(96)
Taxation						(13)
Minority interests						(218)
Loss attributable to shareholders						(581)
Assets:						
Division assets	3,990	1,193	705	1,621	(1,156)	6,353
Liabilities:						
Division liabilities	3,886	495	692	361	(1,693)	3,741
Other information:						
Depreciation and amortisation	191	24	–	34		249
Capital expenditure	90	6	2	22		120

35. SEGMENT REPORTING *(continued)*

(b) Geographical segments

	Sales Revenue		Carrying amount of Division assets		Capital expenditure incurred during the year	
	2001 HK$ million	2000 HK$ million	**2001 HK$ million**	2000 HK$ million	**2001 HK$ million**	2000 HK$ million
North America	**1,310**	2,671	**196**	225	**–**	–
Europe	**945**	1,760	**154**	219	**–**	1
Asia	**5,563**	3,878	**5,103**	5,909	**187**	119
Unallocated	**–**	–	**389**	–	**389**	–
	7,818	8,309	**5,842**	6,353	**576**	120

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below 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 result in particulars of excessive length.

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Directly held:					
Broadland Investments Limited	British Virgin Islands	US$106	**100%**	100%	Investment holding
The Grande Leisure and Entertainment Holdings Limited	British Virgin Islands	US$2	**100%**	100%	Investment holding
The Grande Capetronic Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
The Grande (Nominees) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
The Grande Industries Limited	British Virgin Islands	US$101	**100%**	100%	Investment holding

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2001	2000	Principal activities
Directly held: *(continued)*					
The Grande Group Limited *	Singapore	S$5,000,000	**100%**	100%	Provision of management services
Tomei Technologies Limited	British Virgin Islands	USD100	**100%**	100%	Investment holding
Grande N.A.K.S. Limited	British Virgin Islands	US$10,000	**100%**	100%	Investment holding
Indirectly held:					
The Alpha Capital Group Limited	British Virgin Islands	US$100	**100%**	100%	Corporate finance and investment holding
The Alpha Capital Limited	Hong Kong	HK$13,121,760	**100%**	100%	Provision of corporate finance, investment and financial advisory services
Hi-Tech Precision Products Limited	British Virgin Islands	US$1	**100%**	–	Investment holding
First International Resources Limited *	Hong Kong	HK$20,000,000	**76%**	–	Foreign currencies exchange service
Unison Foreign Exchange Limited *	Hong Kong	HK$5,000	**76%**	–	Foreign currencies exchange service

* Audited by certified public accountants other than Deloitte Touche Tohmatsu.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2001	2000	Principal activities
Directly held: *(continued)*					
Polycrown Company Limited *	Hong Kong	HK$100,000	**86%**	86%	Property holding
South Sea International Press Limited *	Hong Kong	HK$10,000,000	**86%**	86%	Manufacture and sale of printed products
Indirectly held:					
Sansui Acoustic Research Corporation	British Virgin Islands	US$2	**100%**	–	Investment holding
Nakamichi Designs Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
Sansui Enterprises Limited	British Virgin Islands	US$1	**100%**	–	Trading of audio and video products
Nakamichi Enterprises Limited	British Virgin Islands	US$10,001	**100%**	100%	Trading of audio and video products
N.A.K.S. Enterprises Limited	British Virgin Islands	US$2	**100%**	100%	Trading of audio and video products
E-Zone Group Holdings Limited *	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
The Grande Group (Hong Kong) Limited	Hong Kong	HK$20	**100%**	100%	Provision of administration services
Hi-Tech Precision Products Limited	Hong Kong	HK$50,000,000	**100%**	100%	Manufacture and trading of electronic products

* Audited by certified public accountants other than Deloitte Touche Tohmatsu.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2001	2000	Principal activities
Indirectly held: *(continued)*					
Tomei Shoji Limited	Hong Kong	HK$2,000,000	**100%**	100%	Trading of mechadecks and video products
TWD Asia Limited	British Virgin Islands	US$100	**100%**	100%	Trading of electronic products
Capetronic Consumer Electronics Holdings Limited	British Virgin Islands	US$49,100	**100%**	100%	Investment holding
Capetronic Manufacturing Limited	British Virgin Islands	US$2,000,000	**100%**	100%	Manufacture and trading of electronic products
Vandyke Limited	British Virgin Islands	US$1,000	**100%**	100%	Property holding
Nakamichi Corporation Berhad # (Formerly Capetronic Consumer Electronics Holdings Berhad)	Malaysia	RM55,410,180	**60%**	60%	Manufacture of consumer electronic products
Lafe International Holdings Limited	Cayman Islands	HK$62,844,690	**76%**	76%	Investment holding
The Grande Properties Limited	Hong Kong	HK$10,000,000	**76%**	76%	Property holding

\# Audited by certified public accountants other than Deloitte Touche Tohmatsu and listed on the Kuala Lumpur Stock Exchange in Malaysia.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2001	2000	Principal activities
Indirectly held: *(continued)*					
Toyo Components Group Limited	British Virgin Islands	US$100	**76%**	100%	Property holding
Capetronic International (Thailand) Public Company Limited o	Thailand	BAHT 14,009,374,000	**64%**	82%	Manufacture of computer monitors
Capetronic Computer Peripherals Holdings Limited *	Bahamas	US$100	**82%**	91%	Trading of computer and electronic products
Sheer Profit Corporation	British Virgin Islands	US$1	**100%**	100%	Investment holding
Lafe Technology Limited +	Bermuda	US$40,000,000	**63%**	47%	Investment holding
Lafe Computer Magnetics Limited	Hong Kong	HK$10,000,000	**63%**	47%	Marketing agent
Lafe Investment Limited	Hong Kong	HK$20	**63%**	47%	Property holding
Lafe Electronic Components (Panyu) Co., Ltd.	The People's Republic of China	HK$35,000,000	**63%**	47%	Manufacture of computer magnetic heads
Lafe Management Services Limited	Hong Kong	HK$20	**63%**	47%	Procurement agent
Lafe Peripherals International Limited	British Virgin Islands	US$100	**63%**	47%	Trading of computer magnetic heads
Lafe (China) Corporation Limited	British Virgin Islands	US$100	**63%**	47%	Manufacture of computer magnetic heads

o *Audited by certified public accountants other than Deloitte Touche Tohmatsu and listed on the Stock Exchange of Thailand.*

* *Audited by certified public accountants other than Deloitte Touche Tohmatsu.*

\+ *Listed on the Singapore Stock Exchange.*

37. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2001, the following events took place:

(a) As disclosed in last year's annual report, O2New, a then subsidiary of the Company, entered into a loan agreement in which O2New agreed to extend an on demand revolving loan facility of up to HK$630 million to the Akai Group including Akai Electric Co., Ltd. for the attempted rescue and restructuring thereof. On 9 October 2001, the Company accepted a Promissory Note of HK$600 million issued by Prosperous Finance Limited ("PFL"), a wholly owned subsidiary of O2New, as part settlement of the advance receivable from O2New. The only substantial asset of PFL was the "Akai" trademarks which were held by its wholly owned subsidiary. As at 31 December 2001, the advance receivable from O2New and PFL in relation to the Akai rescue amounted to HK$618 million (2000: HK$425 million).

Subsequently, on 21 January 2002, O2New issued 280 million new shares at HK$0.065 per share to a subsidiary of the Company.

(b) On 19 February 2002, Nakamichi applied to the Tokyo District Court to initiate the Civil Restructuring Proceeding ("CRP") to allow it to continue to operate and to propose a restructuring scheme. In early March, the Tokyo District Court approved the CRP application. The Company is a sponsor to the CRP. The outcome of the CRP will be determined in July or August 2002 when the creditors will vote on the Restructuring Plan to be put forth by the management of Nakamichi. The debts due by Nakamichi to the Company and its subsidiaries are substantially secured by the assets of its subsidiaries. The directors of the Company believe the amounts are substantially recoverable.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2002.