1. CORPORATE INFORMATION

During the year, the Group was engaged in the design, manufacture and marketing of a wide range of electronic consumer products, including pagers, calculators and electronic toys.

2. FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities at the balance sheet date of approximately HK$1.4 million. The directors have made an assessment of the Group's ability to continue as a going concern. When taking into account, inter alia, the expected cash inflows from the disposal of its associate as further detailed in note 31(a) to the financial statements, the directors consider that the preparation of these financial statements on a going concern basis is appropriate.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements, together with a summary of their major effects where applicable:

SSAP 9 (Revised):	"Events after the balance sheet date"
SSAP 14 (Revised):	"Leases"
SSAP 26:	"Segment reporting"
SSAP 28:	"Provisions, contingent liabilities and contingent assets"
SSAP 30:	"Business combinations"
SSAP 31:	"Impairment of assets"
SSAP 32:	"Consolidated financial statements and accounting for investments in subsidiaries"

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP has had no major impact for these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The principal impact of the SSAP on the preparation of these financial statements is that all future minimum lease payments under non-cancellable operating leases are disclosed in note 29 to the financial statements.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determine whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has had no major impact on these financial statements.

SSAP 30 prescribes the treatment of business combinations, including the determination of the date of acquisition and the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill or negative goodwill in the non-current assets section of the consolidated balance sheet, and that such goodwill or negative goodwill is amortised to or recognised in the consolidated profit and loss account over its estimated useful life. The adoption of the SSAP has resulted in prior year adjustments, further details of which are included in note 5 to the financial statements. The required new additional disclosures are included in notes 17 and 26 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets, together with disclosure requirements. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and 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 effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding ten years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against reserves in the year of acquisition. On the adoption of SSAP 30, the goodwill previously eliminated against reserves for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, further details of which are included in notes 17 and 26 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land	Over the unexpired term of the lease
Leasehold buildings	50 years or over the term of the relevant lease, whichever is shorter
Plant and machinery	$6\ ^{2}/_{3}$ years
Moulds	5 years
Motor vehicles	4 years
Furniture, fixtures and fittings	10 years
Computer and office equipment	3 to $6\ ^{2}/_{3}$ years

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

Fixed assets and depreciation *(continued)*

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop 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 reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices 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 profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 the estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that 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.

Operating leases

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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 translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the Group's subsidiaries registered in the People's Republic of China ("PRC"), which are maintained in Renminbi, are translated into 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.

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

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 bases:

(a) from the sale of goods, when the 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;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(c) dividends, when the shareholders' right to receive payment is established.

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.

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 and bank balances represent assets similar in nature to cash which are not restricted as to use.

5. PRIOR YEAR ADJUSTMENTS

The Group has elected to apply SSAP 30 "Business combinations" retrospectively in respect of goodwill arising on acquisition before 1 January 2001, which had been capitalised in the consolidated balance sheet and amortised to the consolidated profit and loss account over the estimated useful economic life not exceeding ten years since the date of acquisition.

In restating the financial statements for 2000 on the basis of the new accounting policy, goodwill of HK$8,929,000 has been restated in the balance sheet as at 31 December 2000 and the net loss from ordinary activities attributable to shareholders for the year ended 31 December 2000 has decreased by HK$892,900 as a result of the amortisation of the goodwill for the year. The cumulative effect on prior years for goodwill amortisation was a decrease in the retained profits at 1 January 2000 by HK$1,785,800.

6. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. The SSAP requires that segment information is presented by way of business and geographical segments.

The Group has only one business segment, which is the design, manufacture and marketing of electronic consumer products and, therefore, no business segment information is presented.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(continued)*

The following tables present revenue, loss and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong and Far East		Elsewhere in the PRC		North America		Europe		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)
Segment revenue:												
Sales to external customers	**13,298**	13,821	**9,051**	89,418	**18,477**	43,879	**44,587**	48,517	**-**	-	**85,413**	195,635
Contribution to gain/ (loss) from operating activities:												
Segment results	**1,256**	2,603	**(13,389)**	(10,245)	**2,257**	8,604	**6,612**	10,052	**-**	-	**(3,264)**	11,014
Unallocated revenue											**1,617**	4,892
Unallocated expenses											**(29,936)**	(37,406)
											(31,583)	(21,500)

	Hong Kong and Far East		Elsewhere in the PRC		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)				(Restated)
Other segment information:								
Segment assets	**78,202**	121,321	**32,650**	64,198	**-**	-	**110,852**	185,519
Capital expenditure	**947**	504	**527**	649	**-**	-	**1,474**	1,153

7. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

8. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2001	2000
	HK$	HK$
		(Restated)
Auditors' remuneration	**720,000**	850,000
Staff costs (including directors' remuneration – note 10):		
Wages and salaries	**18,777,582**	28,752,066
Pension contributions	**566,980**	29,705
	19,344,562	28,781,771
Depreciation	**4,461,255**	5,998,616
Lease payments under operating leases in respect of land and buildings	**1,817,595**	1,866,308
Research and development costs	**184,761**	353,942
Loss on disposal of fixed assets	**232,503**	281,700
Bad debt expenses	**269,963**	1,578,206
Amortisation of goodwill	**892,900**	892,900
Exchange losses, net	**439,340**	654,153
Unrealised holding loss/(gain) on short term investments	**(267,520)**	1,337,600
Dividend income from short term investments	**(72,725)**	–
Gain on winding-up of an associate	**–**	(90,924)
Interest income	**(396,451)**	(518,178)

9. FINANCE COSTS

	Group	
	2001	2000
	HK$	HK$
Interest on bank loans wholly repayable within five years	**332,020**	328,944

10. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	2001	2000
	HK$	HK$
Directors' fees:		
Executive	**–**	–
Non-executive	**–**	–
Independent non-executive	**24,000**	24,000
	24,000	24,000
Other emoluments:		
Executive:		
Salaries and other benefits	**1,356,803**	1,310,350
Pension scheme contributions	**113,493**	–
Non-executive:		
Salaries and other benefits	**220,000**	–
Pension scheme contributions	**18,000**	–
Independent non-executive	**–**	–
	1,732,296	1,334,350

The remuneration of each of the directors fell within the range of nil to HK$1,000,000.

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

During the year, 1,200,000 share options were granted to a director in respect of his services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors. No value in respect of the share options granted during the year has been charged to the profit and loss account.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2000: one) director, details of whose emoluments are included in note 10 above. The details of the remuneration of the remaining four (2000: four) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	HK$	HK$
Salaries and other benefits	**3,319,091**	3,064,696
Pension scheme contributions	**95,500**	3,000
	3,414,591	3,067,696

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2001	2000
Nil to HK$1,000,000	**3**	4
HK$1,000,000 to HK$1,500,000	**1**	–
	4	4

During the year, 3,584,000 share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors. No value in respect of the share options granted during the year has been charged to the profit and loss account.

12. TAX

No provision for Hong Kong profits tax has been made for the current year (2000: Nil) because the Group did not have any assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

12. TAX *(continued)*

	Group	
	2001	2000
	HK$	HK$
Company and subsidiaries	**–**	–
Share of tax charge/(credit) of associates	**(2,703,462)**	5,117,370
Tax charge/(credit) for the year	**(2,703,462)**	5,117,370

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company was HK$36,227,366 (2000: HK$582,009).

The Group's share of aggregate profits and losses retained by its associates for the year amounted to a loss of HK$8,826,194 (2000: profit of HK$20,995,231).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$70,485,490 (2000: HK$14,878,114) and the weighted average of 963,796,241 (2000: 904,074,213) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2001 and 2000 have not been presented as the effects arising from the exercise of the Company's share options would have been anti-dilutive.

15. FIXED ASSETS

Group

	Leasehold land and buildings	Plant and machinery	Moulds	Motor vehicles	Furniture, fixtures and fittings	Computer and office equipment	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Cost:							
At beginning of year	42,487,149	42,738,918	3,927,449	4,229,079	14,608,768	3,668,996	111,660,359
Additions	–	429,239	813,300	65,000	–	166,588	1,474,127
Disposals	–	–	–	(223,064)	–	–	(223,064)
Written-off	–	(16,100,446)	(1,198,210)	(2,042,343)	(7,223,872)	(161,541)	(26,726,412)
At 31 December 2001	42,487,149	27,067,711	3,542,539	2,028,672	7,384,896	3,674,043	86,185,010
Accumulated depreciation:							
At beginning of year	6,198,897	39,806,544	2,403,820	4,041,143	12,702,597	3,065,742	68,218,743
Provided for the year	944,161	1,829,527	689,842	109,159	507,846	380,720	4,461,255
Disposals	–	–	–	(223,064)	–	–	(223,064)
Written-off	–	(15,989,585)	(1,166,601)	(2,042,343)	(7,088,933)	(161,541)	(26,449,003)
At 31 December 2001	7,143,058	25,646,486	1,927,061	1,884,895	6,121,510	3,284,921	46,007,931
Net book value:							
At 31 December 2001	**35,344,091**	**1,421,225**	**1,615,478**	**143,777**	**1,263,386**	**389,122**	**40,177,079**
At 31 December 2000	36,288,252	2,932,374	1,523,629	187,936	1,906,171	603,254	43,441,616

15. FIXED ASSETS *(continued)*

The leasehold land and buildings included above are held under the following lease terms:

	Hong Kong	Mainland China	Total
	HK$	HK$	HK$
Medium term leases	13,208,471	22,135,620	35,344,091

The leasehold land and buildings in Hong Kong were pledged to a bank to secure banking facilities granted to the Group.

Company

	Furniture, fixtures and fittings	Computer and office equipment	Total
	HK$	HK$	HK$
Cost:			
At beginning of year and at 31 December 2001	80,324	336,459	416,783
Accumulated depreciation:			
At beginning of year	25,421	221,508	246,929
Provided for the year	8,033	60,288	68,321
At 31 December 2001	33,454	281,796	315,250
Net book value:			
At 31 December 2001	**46,870**	**54,663**	**101,533**
At 31 December 2000	54,903	114,951	169,854

16. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$	2000 HK$
Unlisted shares, at cost	**8,152,055**	9,352,845
Due from subsidiaries	**398,720,771**	393,427,988
Due to a subsidiary	**(712,389)**	(714,700)
	406,160,437	402,066,133
Less: Provision for impairment	**(333,400,000)**	(298,400,000)
	72,760,437	103,666,133

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Artwin Electronics Limited *	Hong Kong	HK$1,000,000	**100**	100	Trading of electronic products
National Infotech Company Limited *	Hong Kong	HK$1,000,000	**100**	100	Dormant
Prod-Art Company Limited	Hong Kong	HK$100 ordinary shares and HK$300,000 fixed-rate participating shares *(note (1))*	**100**	100	Investment holding and trading of electronic products

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Prod-Art Marketing (International) Limited	Hong Kong	HK$200,000	–	100	Dormant
Prod-Art (Warehouse) Company Limited*	Cayman Islands/ Hong Kong	HK$10	**100**	100	Property holding
Screwfix Services Limited	British Virgin Islands/PRC	US$100	–	100	Dormant
Shenzhen GTP Telecom & Electronics Ltd. ("Shenzhen GTP") *	PRC	HK$35,000,000 *(note (2))*	**90**	90	Dormant
Shenzhen Prod-Art Electronics & Telecom Co. Ltd. ("Shenzhen Prod-Art") *	PRC	HK$35,000,000	*(note (3))*		Development, production and marketing of electronic products
Sino Communications Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Sino Foundations Finance Company Limited	Hong Kong	HK$2	**100**	100	Dormant
Sino Foundations Network Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Dormant
Sino Telecommunications Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of marketable securities
SDM Technology Limited	Hong Kong	HK$2	**100**	100	Dormant

* *Indirectly held*

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

(1) All of the fixed-rate participating shares in Prod-Art Company Limited are held by two former directors, Chan Suk Ping and Chan Suk Sing. These shares carry no rights to vote or to participate in a distribution of profits and, on liquidation, have very limited rights to the repayment of the amount paid up on the shares.

(2) Shenzhen GTP is an equity joint venture company formed by the Group and a company in the PRC (the "PRC party"). The Group has an agreement with the PRC party pursuant to which the PRC party agreed to accept an annual guaranteed sum in lieu of its 10% share of the operating results of Shenzhen GTP. The PRC party will not be required to make any further capital contribution or to accept further liabilities. Other than the return of the registered capital paid up by the PRC party, the Group will be entitled to all remaining assets upon liquidation of Shenzhen GTP. Accordingly, the Group has included the entire operating results of Shenzhen GTP in its results.

(3) Shenzhen Prod-Art is a cooperative joint venture company formed by the Group and a company in the PRC (the "PRC partner"). Pursuant to the joint venture agreement, the PRC partner is entitled to an annual guaranteed sum and the Group is entitled to the entire results of Shenzhen Prod-Art. Accordingly, Shenzhen Prod-Art is treated by the Group as a wholly-owned subsidiary for accounting purposes and the annual guaranteed sum is treated as an annual expense.

17. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK$	HK$
		(Restated)
Share of net assets	**64,387,030**	73,222,039
Goodwill on acquisition	**–**	6,250,300
Provision for impairment *(note)*	**(24,387,030)**	–
	40,000,000	79,472,339

Note: As further detailed in note 31(a) to the financial statements, the Group has conditionally agreed to sell its entire interest in an associate, Wu Holdings Limited, for HK$40 million. A provision for an impairment loss of HK$24.4 million has been made at the balance sheet date.

17. INTERESTS IN ASSOCIATES *(continued)*

SSAP 30 was adopted during the year, as detailed in notes 3 and 5 to the financial statements. The amount of the goodwill capitalised as an asset, arising from the acquisition of an associate, Wu Holdings Limited, is as follows:

	Group
	HK$
Cost:	
At beginning of year:	
As previously reported	–
Prior year adjustment *(note 5)*	8,929,000
As restated and at December 2001	8,929,000
Accumulated amortisation and impairment:	
At beginning of year:	
As previously reported	–
Prior year adjustment *(note 5)*	2,678,700
As restated	2,678,700
Amortisation provided during the year	892,900
Impairment provided during the year	5,357,400
At 31 December 2001	8,929,000
Net book value:	
At 31 December 2001	**–**
At 31 December 2000 (as restated)	6,250,300

The prior year adjustments so arising have resulted in goodwill previously eliminated against reserves of HK$8,929,000 as at 1 January 2001, being restated as the cost of the goodwill above, as at 1 January 2001. The cumulative amount of goodwill that would have been amortised to the profit and loss account under the new accounting policy of HK$2,678,700 as at 1 January 2001 has been restated as the balance of accumulated amortisation and impairment of goodwill as at 1 January 2001.

17. INTERESTS IN ASSOCIATES *(continued)*

The effect of this change in accounting policy on the profit and loss account for the current year was to increase the amortisation of goodwill by HK$892,900.

The amount of the accumulated amortisation and impairment of HK$2,678,700 as at 1 January 2001 and HK$1,785,800 as at 1 January 2000 have been adjusted to the balance of retained earnings as at those dates.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group 2001	2000	Principal activities
Shenzhen SED Telecommunication Technology Co., Ltd.#	Corporate	PRC	**47.5**	47.5	Development, production and marketing of communication network equipment
Wu Holdings Limited#	Corporate	British Virgin Islands/PRC	**28.84**	28.84	Investment holding

Not audited by Ernst & Young

17. INTERESTS IN ASSOCIATES *(continued)*

The principal activities of the material associate of the Group, Wu Holdings Limited and its subsidiaries, are the development, production and marketing of electronic products. A summary of the results and the net assets as at the balance sheet date of Wu Holdings Limited group is set out below:

(a) Results for the year:

	2001	2000
	HK$'000	HK$'000
	(note (1))	
Turnover	**–**	370,310
Operating profit/(loss)	**(186)**	53,881
Gain/(loss) on dilution of interest in a subsidiary *(note (2))*	**(19,489)**	53,998
Profit/(loss) from operating activities	**(19,675)**	107,879
Share of losses of associates	**(20,303)**	–
Profit/(loss) before tax	**(39,978)**	107,879
Tax	**9,374**	(17,744)
Profit/(loss) before minority interests	**(30,604)**	90,135
Minority interests	**–**	(17,336)
Net profit/(loss) from ordinary activities attributable to shareholders	**(30,604)**	72,799

Notes:

(1) During the year, the only subsidiary of Wu Holdings Limited has become an associate upon the dilution of Wu Holdings Limited's interest in this subsidiary subsequent the issuance of new shares by this subsidiary to other investors. Accordingly, no consolidated financial statements have been prepared for the year ended 31 December 2001.

(2) The Group's share of loss on dilution of the interest in Wu Holdings Limited in its subsidiary amounting to HK$5,620,628 (2000: gain on dilution of HK$15,573,023) is included in the share of profits less losses of associates for the year.

17. INTERESTS IN ASSOCIATES *(continued)*

(b) Net assets at 31 December:

	2001	2000
	HK$	HK$
Non-current assets	**235,383**	427,911
Current assets	**–**	479,040
Current liabilities	**(410)**	(364,574)
Non-current liabilities	**(11,717)**	(59,027)
Minority interests	**–**	(229,459)
Shareholders' equity	**223,256**	253,891

18. SHORT TERM INVESTMENTS

	Group	
	2001	2000
	HK$	HK$
Listed equity investments in Hong Kong, at market value	**2,432,000**	2,164,480

19. INVENTORIES

	Group	
	2001	2000
	HK$	HK$
Raw materials	**6,198,576**	23,167,206
Work in progress	**689,781**	4,239,763
Finished goods	**1,622,284**	8,189,261
	8,510,641	35,596,230

The carrying amount of inventories included in the above at the balance sheet date carried at net realisable value amounted to HK$505,442 (2000: HK$1,343,396).

20. TRADE AND BILLS RECEIVABLES

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	2001		2000	
	HK$	**Percentage**	HK$	Percentage
Within two months	**2,141,616**	**29**	4,618,431	39
Within two to four months	**258,713**	**3**	2,029,338	17
Within four months to one year	**1,078,684**	**15**	1,931,196	17
Over one year	**3,975,581**	**53**	3,150,214	27
	7,454,594	**100**	11,729,179	100
Less: Provision	**(5,475,803)**		(5,358,339)	
Total after provision	**1,978,791**		6,370,840	

The normal credit period granted by the Group is within two months from the date of recognition of the sale.

21. PLEDGED DEPOSITS

The balance represents cash deposits pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2001, such facilities were utilised as to HK$2,947,349 (2000: HK$3,711,807).

22. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2001	2000	**2001**	2000
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**4,575,614**	8,845,323	**757,707**	385,873
Time deposits	**6,050,000**	50,000	**6,000,000**	–
Cash and cash equivalents	**10,625,614**	8,895,323	**6,757,707**	385,873

23. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	2001		2000	
	HK$	**Percentage**	HK$	Percentage
Within two months	**3,211,344**	**30**	10,268,994	48
Within two to four months	**3,424,291**	**32**	7,834,835	36
Within four months to one year	**3,022,732**	**28**	1,978,567	9
Over one year	**1,119,619**	**10**	1,433,041	7
	10,777,986	**100**	21,515,437	100

24. TRUST RECEIPT LOANS, SECURED

The trust receipt loans were secured by time deposits and certain leasehold land and buildings of the Group.

25. SHARE CAPITAL

	2001	2000
	HK$	HK$
Shares		
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**300,000,000**	300,000,000
Issued and fully paid:		
1,004,527,778 (2000: 904,075,000) ordinary shares of HK$0.10 each	**100,452,778**	90,407,500

25. SHARE CAPITAL *(continued)*

Shares *(continued)*

A summary of the movement in the Company's ordinary share capital during the year is as follows:

	Number of shares in issue	Nominal value of shares in issue
		HK$
At 1 January 2000	904,071,000	90,407,100
Share options exercised	4,000	400
At 31 December 2000 and 1 January 2001	904,075,000	90,407,500
Issue of shares	100,452,778	10,045,278
At 31 December 2001	1,004,527,778	100,452,778

During the year, 100,452,778 shares of HK$0.10 each were issued for cash at a subscription price of HK$0.11835 per share, which resulted in a total consideration of approximately HK$11.9 million.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

At the beginning of the year, there were 7,200,000 options outstanding under the Scheme. During the year, 6,284,000 options were granted and 1,200,000 options were cancelled. At 31 December 2001, there were 12,284,000 options outstanding under the Scheme. Such options are exercisable at a price from HK$0.104 to HK$0.316 per share during the period from 31 August 2000 to 15 March 2006. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,284,000 additional ordinary shares and would generate cash proceeds, before the related issue expenses, of approximately HK$2,223,000 for the Company.

26. RESERVES

Group

	Share premium account HK$	Capital reserves# HK$	Reserve on consolidation HK$	Exchange translation reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2000:						
As previously reported	296,554,876	4,138,308	(22,973,318)	(442)	(239,413,264)	38,306,160
Prior year adjustments:						
SSAP 30 - restatement to non-current assets section of balance sheet of goodwill on acquisition of an associate	–	–	8,929,000	–	(1,785,800)	7,143,200
As restated	296,554,876	4,138,308	(14,044,318)	(442)	(241,199,064)	45,449,360
Issue of shares	480	–	–	–	–	480
Net loss for the year (as restated)	–	–	–	–	(14,878,114)	(14,878,114)
Share of movements in reserves of associates	–	17,838,982	–	15,285	(15,887,379)	1,966,888
Exchange realignment	–	–	–	470,041	–	470,041
Impairment in value of goodwill previously eliminated directly against reserves at the time of acquisition of an associate, charged to the profit and loss account	–	–	14,044,318	–	–	14,044,318
At 31 December 2000 and at 1 January 2001	296,555,356	21,977,290	–	484,884	(271,964,557)	47,052,973
Issue of shares	1,843,308	–	–	–	–	1,843,308
Share issue expenses	(386,988)	–	–	–	–	(386,988)
Net loss for the year	–	–	–	–	(70,485,490)	(70,485,490)
Share of movements in reserves of associates	–	–	–	(8,815)	–	(8,815)
At 31 December 2001	298,011,676	21,977,290	–	476,069	(342,450,047)	(21,985,012)
Retained by:						
Company and subsidiaries	298,011,676	–	–	–	(353,312,718)	(55,301,042)
Associates	–	21,977,290	–	476,069	10,862,671	33,316,030
At 31 December 2001	298,011,676	21,977,290	–	476,069	(342,450,047)	(21,985,012)
Retained by:						
Company and subsidiaries	296,555,356	–	–	–	(291,653,422)	4,901,934
Associates	–	21,977,290	–	484,884	19,688,865	42,151,039
At 31 December 2000	296,555,356	21,977,290	–	484,884	(271,964,557)	47,052,973

Capital reserves represent the non-distributable reserves of an associate.

26. RESERVES *(continued)*

Company

	Share premium account HK$	**Accumulated losses** HK$	**Total** HK$
At 1 January 2000	296,554,876	(281,257,618)	15,297,258
Issue of shares	480	–	480
Net loss for the year	–	(582,009)	(582,009)
At 31 December 2000 and at 1 January 2001	296,555,356	(281,839,627)	14,715,729
Issue of shares	1,843,308	–	1,843,308
Share issue expenses	(386,988)	–	(386,988)
Net loss for the year	–	(36,227,366)	(36,227,366)
At 31 December 2001	298,011,676	(318,066,993)	(20,055,317)

27. DEFERRED TAX

The principal components of the Group's deferred tax asset not recognised in the financial statements are as follows:

	2001 **HK$**	2000 HK$
Accelerated depreciation allowances	**181,830**	127,270
Tax losses	**(14,494,795)**	(14,039,533)
At 31 December	**(14,312,965)**	(13,912,263)

Net deferred tax asset has not been recognised in the financial statements because it is uncertain whether the tax losses will be utilised in the foreseeable future.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	HK$	HK$
		(Restated)
Loss from operating activities	**(31,582,846)**	(21,500,083)
Depreciation	**4,461,255**	5,998,616
Loss on disposal of fixed assets	**232,503**	281,700
Bad debt expenses	**269,963**	1,578,206
Amortisation of goodwill	**892,900**	892,900
Unrealised holding loss/(gain) on short term investments	**(267,520)**	1,337,600
Dividend income from short term investments	**(72,725)**	–
Gain on winding-up of an associate	**–**	(90,924)
Interest income	**(396,451)**	(518,178)
Decrease in inventories	**27,085,589**	10,699,437
Decrease in trade and bills receivables	**4,122,086**	11,644,261
Decrease in other receivables and prepayments	**2,145,756**	1,003,819
Decrease in trade and bills payables	**(10,737,451)**	(9,157,143)
Increase/(decrease) in other payables and accruals	**(4,172,528)**	1,920,117
Net cash inflow/(outflow) from operating activities	**(8,019,469)**	4,090,328

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing activities during the year

	Other loans HK$	Issued capital and share premium account HK$
At 1 January 2000	11,800,000	386,961,976
Issue of shares	–	880
Net cash outflow from financing	(11,800,000)	–
At 31 December 2000 and 1 January 2001	–	386,962,856
Issue of shares	–	11,888,586
Net cash outflow from financing	–	(386,988)
At 31 December 2001	–	398,464,454

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory premises under operating lease arrangements. Leases for properties are negotiated for terms of 4 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$	HK$
		(Restated)
Within one year	**1,526,664**	1,671,441
In the second to fifth years, inclusive	**5,998,629**	7,525,293
	7,525,293	9,196,734

30. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given a guarantee to a bank in respect of banking facilities granted to a subsidiary. Facilities amounting to HK$2,947,349 (2000: HK$3,711,807) were utilised by the subsidiary as at 31 December 2001.

31. POST BALANCE SHEET EVENTS

(a) Asset disposals

As detailed in the Company's circular dated 25 January 2002, on 31 December 2001, the Group entered into an agreement (the "Agreement") with Bermuda Trust (Cook Islands) Limited ("Bermuda Trust"), the trustee of The Qiao Xing Trust, pursuant to which the Group has conditionally agreed to sell, and Bermuda Trust has conditionally agreed to purchase the Group's entire interest in Wu Holdings Limited, an associate of the Group, for a consideration of approximately HK$40 million. As Mr. Wu Ruilin, an executive director of the Company, is the protector and one of the discretionary objects of The Qiao Xing Trust, Bermuda Trust is an associate of Mr. Wu Ruilin, and hence, a connected person of the Company. Accordingly, the Agreement constitutes a connected transaction for the Company under the Listing Rules.

Subsequent to the balance sheet date, on 1 March 2002, the transaction was approved by the independent shareholders of the Company in a special general meeting. Up to the date of issuance of these financial statements, the conditions as specified in the Agreement had not yet been fully fulfilled and, accordingly, the said transaction has not been completed.

(b) Issue of convertible note

Subsequent to the balance sheet date, on 27 June 2002, the Company entered into a conditional placing underwriting agreement with First Shanghai Securities Limited and First Shanghai Capital Limited in relation to the private placing of convertible notes in an aggregate principal amount of HK$10,560,000. The convertible notes are convertible into 52,800,000 ordinary shares of the Company at an initial conversion price of HK$0.2 per share (subject to adjustments). The whole of the outstanding principal amount of the convertible notes will be repaid on the maturity date, which is the first anniversary of the issue date of the convertible notes.

31. POST BALANCE SHEET EVENTS *(continued)*

(c) Asset acquisition

As detailed in the Company's announcement dated 12 July 2002, on the same date, the Company entered into a conditional acquisition agreement with United Home Limited ("United Home"), a substantial shareholder of the Company, to acquire the entire interest in Superfort Management Corp. ("Superfort"), a wholly-owned subsidiary of United Home, at a cash consideration of HK$60 million. The acquisition is financed by the share proceeds to be received from United Home in accordance with a conditional subscription agreement entered into on 12 July 2002 between the Company and United Home, pursuant to which, the Company will issue 379,746,836 ordinary shares to United Home at a subscription price of HK$0.158 each.

Superfort, upon the completion of a group restructuring, will be the 70% holding company of Hainan Caixun Informedia Co., Ltd. ("Hainan Caixun"), which in turn holds 70% equity interest in each of Shenzhen Caixun Advertising Co., Ltd. and Beijing Caixun Advertising Co., Ltd.. Pursuant to an option agreement entered into between Superfort and the Chinese party of Hainan Caixun on 12 July 2002, Superfort was granted the right to acquire an additional 15.7% equity interest in Hainan Caixun from the Chinese party at a total exercise price of RMB1,413,000.

As United Home is a substantial shareholder of the Company, the agreements constituted connected transactions for the Company under the Listing Rules.

32. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 July 2002.