1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Subsidiaries and controlled entities

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

Investments in controlled subsidiaries are consolidated into the consolidated financial statements, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Group, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and controlled entities *(Continued)*

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(m)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(e) Associates

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Investments in associates are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of its associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(f).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates *(Continued)*

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(m)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(f) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(m)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(m)).

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

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(g) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealers' margin.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in securities *(Continued)*

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

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

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

(h) Property, plant and equipment

(i) Land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified external valuers. Surpluses arising on revaluations are credited on a portfolio basis to the income statement to the extent of any deficit arising on revaluation previously charged to the income statement and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the income statement.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the income statement for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

(j) Intangible assets

Intangible assets represent patent rights for software development acquired by the Group and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 10 years.

(k) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Amortisation and depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

Land in Hong Kong held under long term lease	Over the remaining lease term
Buildings in Hong Kong	50 years
Land use rights and buildings outside Hong Kong in the PRC held under short to medium term leases	Over the period of the lease
Furniture, fixtures and fittings	3 to 20 years
Plant, machinery and equipment	2 to 10 years
Motor vehicles	3 to 10 years
Investment properties	
— unexpired lease term of more than 20 years	Nil
— unexpired lease term of 20 years or less	Over the remaining lease term

(m) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(d) and (e));

— intangible assets; and

— positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(n) Inventories

(i) Trading and manufacturing

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Inventories *(Continued)*

(i) Trading and manufacturing (Continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Property development

Properties developed for sale are stated at the lower of cost and estimated net realisable value. Cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(o) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(ii) The Company's contributions to the Mandatory Provident Funds, as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance, are recognised as an expense in the income statement as incurred.

The employees of the PRC subsidiaries participate in defined contribution retirement plans managed by the local government authority whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local government defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs. The Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. The nominal consideration is recognised in the income statement on cash basis. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Forward exchange contracts

Exchange differences arising on non-speculative contracts which are used as hedges of firm commitments are added to, or deducted from, the amount of the relevant transaction. These outstanding contracts are revalued at the exchange rates ruling at the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Deferred taxation

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

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

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(ii) Fee income

Fee income from value-added technical services is recognised when the services are rendered.

(iii) Contract revenue

When the outcome of contract work can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the respective leases.

(v) Dividends

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

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

(vi) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Translation of foreign currencies

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

The results of subsidiaries outside Hong Kong in the PRC are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(v) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research costs are recognised as an expense in the period in which they are incurred. Development costs are recognised as an expense in the period in which they are incurred except those development costs which relate to a clearly defined project and the future benefits therefrom are reasonably assured.

(w) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(x) Related parties

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) 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.

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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of electronic and electrical products, office equipment and the provision of value-added technical services. Further details of the principal subsidiaries are set out in note 37 on the financial statements.

2 TURNOVER *(Continued)*

Turnover represents the invoiced value of goods sold and services provided to customers by the Group less returns, discounts, business tax and value added tax, and fee income from value-added technical services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	*$'000*
Manufacturing, distribution and sale of electronic and electrical products and office equipment	**952,375**	921,709
Fee income from value-added technical services	**42,278**	19,705
Media-related business	**1,313**	—
	995,966	941,414

3 OTHER REVENUE

	2002	2001
	$'000	*$'000*
Interest income	**2,559**	10,467
Rental received from investment properties less outgoings	**2,969**	4,820
Compensation for termination of distribution right of Matsushita products	**—**	22,626
Others	**3,140**	5,114
	8,668	43,027

4 NON-OPERATING INCOME/(EXPENSES)

	2002	2001
	$'000	*$'000*
Impairment loss on properties	**—**	(8,237)
Net unrealised gain/realised (loss) on equity securities *(note 21)*	**348,084**	(38,602)
Impairment loss on non-trading securities	**(79,353)**	—
Net loss on disposal of interest in subsidiaries	**(3,290)**	—
Loss on disposal of unlisted investments	**(12,257)**	—
Net profit/(loss) on disposal of interest in associates	**2,285**	(15,197)
Impairment loss on goodwill and other intangible assets	**—**	(26,542)
Revaluation deficit on investment properties	**(3,490)**	(1,855)
Provision for loan receivable	**(3,570)**	—
Gain on deemed disposal of an associate	**2,586**	—
Others	**(52)**	659
	250,943	(89,774)

5 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2002	2001
	$'000	*$'000*
Interest on bank advances and other borrowings repayable within five years	**1,872**	4,089
Other borrowing costs	**410**	426
Total borrowing costs	**2,282**	4,515

5 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION *(Continued)*

(b) Other items:

	2002	2001
	$'000	*$'000*
Cost of inventories	**879,628**	845,639
Staff costs (including retirement costs of $5,601,000 (2001: $5,181,000))	**74,683**	53,271
Amortisation of goodwill	**2,235**	200
Amortisation of net (negative)/positive goodwill included in share of profits less losses of associates	**(12,224)**	2,311
Amortisation of other intangible assets	**—**	1,017
Research and development costs	**2,319**	4,653
Provision for write down in value of obsolete inventories	**7,735**	11,221
Provision for bad and doubtful debts	**1,807**	10,670
Loss/(gain) on disposal of property, plant and equipment	**773**	(1,120)
Depreciation	**8,265**	10,783
Management fees	**2,592**	2,592
Auditors' remuneration		
— current year	**2,200**	2,000
— prior year	**200**	—
Operating lease charges for land and buildings	**11,873**	9,107

6 DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	$'000	*$'000*
Fees	**—**	—
Salaries and other emoluments	**9,225**	6,342
Retirement scheme contributions	**18**	44
	9,243	6,386

6 DIRECTORS' REMUNERATION *(Continued)*

In addition, directors are eligible under the Company's share option schemes to subscribe for shares in the Company. During the year, 21,900,000 options have been granted to the directors. The details of these benefits in kind are disclosed under the paragraph "Share Option Schemes" in the directors' report.

The directors' remuneration is within the following bands:

	2002 Number of directors	2001 Number of directors
$ 0 — $1,000,000	**4**	8
$ 1,000,001 — $1,500,000	**1**	1
$ 1,500,001 — $2,000,000	**—**	—
$ 2,000,001 — $2,500,000	**1**	—
$ 2,500,001 — $3,000,000	**—**	1
$ 3,000,001 — $3,500,000	**—**	—
$ 3,500,001 — $4,000,000	**—**	—
$ 4,000,001 — $4,500,000	**1**	—

Included in the directors' remuneration were fees of $545,000 (2001: $Nil) paid to the Company's independent non-executive directors. The above number of directors also include the directors who were resigned during the respective years.

During the year ended 31 December 2002, three directors agreed to waive part of their emoluments totalling $9,775,000 (2001: $10,849,000) to which they are entitled under the service contracts entered into with the Company.

7 FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments comprise three (2001: four) directors whose emoluments are disclosed in note 6 and two (2001: one) employees. Details of the emoluments in respect of these employees are as follows:

	2002 *$'000*	2001 *$'000*
Salary, housing and other emoluments	**2,120**	857

7 FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The emoluments of the above employees are within the following bands:

	2002 Number of employees	2001 Number of employees
$ 0 — $1,000,000	**—**	1
$ 1,000,001 — $1,500,000	**2**	—

8 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 *$'000*	2001 *$'000*
Hong Kong profits tax		
— current year	**3**	14
— prior year	**—**	(32)
Income tax outside Hong Kong in the PRC ("PRC income tax")	**954**	3,050
Share of associates' PRC income tax	**15**	103
	972	3,135

The provision for Hong Kong profits tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits for the year. PRC income tax is calculated at the applicable rates on the estimated taxable income outside Hong Kong in the PRC.

8 TAXATION *(Continued)*

(b) Taxation in the balance sheets represents:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Provision for Hong Kong profits tax				
— current year	**3**	14	**—**	—
— balance of profits tax recoverable relating to prior years	**(14)**	—	**—**	—
— provisional profits tax paid	**—**	(8)	**—**	—
Provision for PRC income tax	**15,787**	17,992	**—**	31
	15,776	17,998	**—**	31

9 PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) for the year attributable to shareholders includes a loss of $109,762,000 (2001: $177,589,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to shareholders of $36,745,000 (2001: loss of $123,229,000) and on the weighted average of 1,198,565,000 shares (2001: 1,140,600,000 shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year is not presented because the existence of outstanding options during the year ended 31 December 2002 has an anti-dilutive effect on the calculation of diluted earnings per share for the year. There were no dilutive potential ordinary shares in existence during 2001.

11 RETIREMENT SCHEMES

Pursuant to the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines, the Company's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff. The Company's contributions payable to the MPF Scheme are charged to the income statement. Retirement costs for the MPF Scheme for the year were $204,000 (2001: $141,000).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of the employees' payroll to the Central Pension Scheme to fund the benefits. The obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme.

Other than the above, certain subsidaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs.

Retirement costs for the Central Pension Scheme and supplementary retirement plans for the year were $5,397,000 (2001: $5,040,000).

12 CHANGES IN ACCOUNTING POLICIES

(i) Employee benefits

The effect of adopting the new accounting policy for SSAP 34 "Employee benefits" has no material effect on the Group's financial results for the year ended 31 December 2002 and prior periods.

(ii) Translation of financial statements of foreign subsidiaries

In prior years, the results of foreign subsidiaries were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1 January 2002, in order to comply with SSAP 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of foreign subsidiaries at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

13 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Electronics	:	The manufacture, distribution and sale of electronic and electrical products and office equipment
Value-added technical services	:	The provision of software development, GIS solution, consultancy services on IT related projects including installation of intelligent systems for buildings and installation of value-added tax machines for enterprises
Media-related business	:	The provision of ancillary services for the development of the cable television and other media-related business

13 SEGMENT REPORTING *(Continued)*

	Electronics		Value-added technical services		Media-related business		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**952,375**	921,709	**42,278**	19,705	**1,313**	—	**—**	—	**995,966**	941,414
Other revenue from external customers	**2,496**	27,061	**341**	679	**303**	—	**5,528**	15,287	**8,668**	43,027
Total	**954,871**	948,770	**42,619**	20,384	**1,616**	—	**5,528**	15,287	**1,004,634**	984,441
Segment result	**(15,827)**	(22,132)	**(4,376)**	(1,962)	**(12,967)**	(2,141)	**(11,670)**	2,951	**(44,840)**	(23,284)
Non-operating income/ (expenses)									**250,943**	(89,774)
Finance costs									**(2,282)**	(4,515)
Share of profits less losses of associates	**(6,973)**	(4,637)	**(116)**	—	**7,737**	(1,261)	**297**	3,465	**945**	(2,433)
Taxation									**(972)**	(3,135)
Minority interests									**(167,049)**	(88)
Profit/(loss) for the year attributable to shareholders									**36,745**	(123,229)
Depreciation and amortisation for the year	**8,827**	10,488	**329**	855	**285**	—	**1,059**	657	**10,500**	12,000
Significant non-cash expenses (other than depreciation and amortisation)	**10,331**	11,981	**—**	—	**—**	—	**(211)**	—	**10,120**	11,981
Segment assets	**735,991**	862,212	**41,435**	23,940	**79**	19,853	**549,178**	100,130	**1,326,683**	1,006,135
Investment in associates	**159,057**	137,394	**10,203**	—	**—**	123,911	**10,391**	—	**179,651**	261,305
Total assets									**1,506,334**	1,267,440
Segment liabilities	**222,281**	250,638	**27,213**	9,171	**126**	1,469	**18,077**	22,332	**267,697**	283,610
Capital expenditure incurred during the year	**15,063**	5,371	**368**	265	**1,799**	636	**1,484**	726	**18,714**	6,998

Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the People's Republic of China. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

14 INVESTMENT PROPERTIES

	Group	
	2002	2001
	$'000	*$'000*
Valuation:		
At 1 January	**68,065**	82,396
Exchange adjustments	**—**	84
Deficit on revaluation	**(3,490)**	(1,855)
Transfer (to)/from fixed assets *(note 15(a))*	**(3,038)**	3,740
Disposal during the year	**—**	(16,300)
At 31 December	**61,537**	68,065
Accumulated depreciation:		
At 1 January	**—**	3,073
Exchange adjustments	**—**	3
Written back on disposal	**—**	(3,076)
At 31 December	**—**	—
Net book value:		
At 31 December	**61,537**	68,065

(a) The analysis of valuation of investment properties is as follows:

	Group	
	2002	2001
	$'000	*$'000*
Held in Hong Kong under long term lease	**2,020**	2,420
Held outside Hong Kong in the PRC under medium term lease	**59,517**	65,645
	61,537	68,065

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31 December 2002 by Jointgoal Surveyors and DTZ Debenham Tie Leung Limited respectively who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation deficit of $3,490,000 (2001: $1,855,000) has been transferred to the consolidated income statement.

14 INVESTMENT PROPERTIES *(Continued)*

(c) The gross carrying amounts of investment properties of the Group held for use in operating leases were $61,537,000 (2001: $68,065,000).

(d) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group	
	2002	2001
	$'000	*$'000*
Within 1 year	**1,937**	4,261
After 1 year but within 5 years	**19**	719
	1,956	4,980

15 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Land and buildings held for own use $'000	Furniture, fixtures and fittings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:					
At 1 January 2002	98,912	3,324	31,580	28,752	162,568
Additions through acquisition of subsidiaries	7,446	519	704	277	8,946
Other additions	1,538	1,344	3,377	3,509	9,768
Transfer from investment properties *(note 14)*	3,038	—	—	—	3,038
Reductions through disposal of subsidiaries	—	(86)	(1,078)	(905)	(2,069)
Other disposals	(365)	(651)	(4,729)	(2,166)	(7,911)
At 31 December 2002	110,569	4,450	29,854	29,467	174,340
Representing:					
Cost	109,876	4,450	29,854	29,467	173,647
Valuation in 1992	693	—	—	—	693
	110,569	4,450	29,854	29,467	174,340
Accumulated amortisation and depreciation:					
At 1 January 2002	61,524	2,559	25,077	17,562	106,722
Charge for the year	2,469	267	2,103	3,426	8,265
Additions through acquisition of subsidiaries	419	162	94	59	734
Reductions through disposal of subsidiaries	—	(62)	(357)	(312)	(731)
Written back on disposal	(58)	(54)	(3,573)	(1,909)	(5,594)
At 31 December 2002	64,354	2,872	23,344	18,826	109,396
Net book value:					
At 31 December 2002	**46,215**	**1,578**	**6,510**	**10,641**	**64,944**
At 31 December 2001	37,388	765	6,503	11,190	55,846

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

	Furniture, fixtures and fittings	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost or valuation:			
At 1 January 2002	1,527	2,410	3,937
Additions	325	1,108	1,433
Disposals	—	(289)	(289)
At 31 December 2002	1,852	3,229	5,081
Accumulated amortisation and depreciation:			
At 1 January 2002	1,235	1,869	3,104
Charge for the year	150	562	712
Written back on disposal	—	(289)	(289)
At 31 December 2002	1,385	2,142	3,527
Net book value:			
At 31 December 2002	**467**	**1,087**	**1,554**
At 31 December 2001	292	541	833

(c) The analysis of cost or valuation of land and buildings is as follows:

	Group	
	2002	2001
	$'000	*$'000*
Held in Hong Kong under long term leases	**47,084**	47,084
Held outside Hong Kong in the PRC under medium term leases	**54,795**	44,677
Held outside Hong Kong in the PRC under short term leases	**8,690**	7,151
	110,569	98,912

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(d) Land and buildings held by subsidiaries with carrying value of $14,176,000 (2001: $2,503,000) were pledged as securities for bank loans of $43,465,000 (2001: $283,000) (note 26).

16 GOODWILL

Group

	Positive goodwill	Negative goodwill	Total
	$'000	*$'000*	*$'000*
Cost:			
At 1 January 2002	7,922	—	7,922
Addition arising on acquisition of subsidiaries	15,739	(1,654)	14,085
At 31 December 2002	23,661	(1,654)	22,007
Accumulated amortisation:			
At 1 January 2002	200	—	200
Amortisation for the year	2,235	—	2,235
At 31 December 2002	2,435	—	2,435
Carrying amount:			
At 31 December 2002	**21,226**	**(1,654)**	**19,572**
At 31 December 2001	7,722	—	7,722

Positive goodwill is recognised as expense on a straight-line basis over 10 years. The amortisation of positive goodwill for the year is included in "Other operating expenses" in the consolidated income statement.

Negative goodwill is recognised as income on a straight-line basis over 10 years. As the negative goodwill arose around the year end date, no amortisation was recorded for the year.

17 OTHER INTANGIBLE ASSETS

Group

	Computer software
	$'000
Cost:	
At 1 January and 31 December 2002	10,178
Accumulated amortisation/impairment loss:	
At 1 January and 31 December 2002	10,178
Net book value:	
At 31 December 2002	—
At 31 December 2001	—

18 INTEREST IN SUBSIDIARIES

	Company	
	2002	2001
	$'000	*$'000*
Unlisted investments, at cost	**318,824**	282,839
Amounts due from subsidiaries	**516,152**	601,958
Amounts due to subsidiaries	**(17,534)**	(19,134)
	817,442	865,663
Impairment loss	**(202,882)**	(128,819)
	614,560	736,844

Details of the principal subsidiaries are set out in note 37 on the financial statements.

19 INTEREST IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Unlisted investments, at cost	**—**	—	**115,691**	88,531
Share of net assets				
— Listed outside Hong Kong	**—**	187,059	**—**	—
— Unlisted	**135,831**	94,516	**—**	—
Goodwill	**43,820**	(20,270)	**—**	—
	179,651	261,305	**115,691**	88,531
Impairment loss	**—**	—	**(3,430)**	—
	179,651	261,305	**112,261**	88,531
Market value of a listed associate	**—**	116,759	**—**	—

(a) In January 2002, the Company acquired 49% equity interest in East.net Technology Investments Ltd. ("East.net") at a consideration of $14,700,000. In addition, a loan amounting to $15,300,000 was made to the founders of East.net which is secured by the remaining 51% of the equity interest in East.net owned by the founders (note 20). At 31 December 2002, the management considered that there is an impairment in the value of interest in East.net, having considered the market demands and financial viability of the business in the foreseeable future. Based on this assessment, the carrying value of East.net was written down by $3,430,000. The estimate of the recoverable amount was based on the estimated future cashflows at a discount rate of 13% applied to the business of East.net.

(b) In June 2002, the Company established an associate, Censoft Company Limited ("Censoft") together with two joint venture partners. The cost of investment in Censoft is RMB30,000,000 (equivalent to $28,275,000), accounted for 30% of its equity interest.

(c) In December 2002, the Company acquired a 51% equity interest in Dalian F.T.Z. Huaqing International Engineering & Trading Co., Ltd ("Dalian Huaqing") at a consideration of $10,391,000. In view of the contractual restrictions imposed on the Group's ability to appoint a majority of the board of directors, the directors consider Dalian Huaqing is not a controlled subsidiary. Accordingly, the unlisted investment is accounted for under the equity method.

(d) Details of the principal associates are set out in note 38 on the accounts.

20 OTHER FINANCIAL ASSETS

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Non-trading securities				
— equity securities				
Listed in Hong Kong	**27,520**	46,870	**27,520**	46,870
Unlisted	**27,198**	64,884	**2**	1,952
	54,718	111,754	**27,522**	48,822
Loan receivable	**15,300**	—	**15,300**	—
Less: provision	**(3,570)**	—	**(3,570)**	—
	11,730	—	**11,730**	—
	66,448	111,754	**39,252**	48,822
Market value of listed securities	**27,520**	46,870	**27,520**	46,870

(a) Included in unlisted equity securities is a 9.51% equity interest in China Cable Information Network Company Limited ("China Cable") with a carrying value of $22,785,000 (2001: $58,388,000) at 31 December 2002. This investment is held in trust on behalf of the Group by Stone Group Corporation, a minority shareholder of the Group.

Pursuant to a series of organisation restructuring steps undertaken by China Cable during the year, additional assets were injected into China Cable in return for equity issued to new shareholders, and the Group's equity interest in China Cable has thereby been diluted from 25% at 31 December 2001 to 9.51% at 31 December 2002.

At 31 December 2002, the management considered that there is an impairment in the value of the investment in China Cable, having considered the market demands and financial viability of the business in the foreseeable future. Based on this assessment, the carrying amount of China Cable was written down by $35,603,000 for the year (2001: $43,750,000). The cumulative loss of $79,353,000 (2001: $Nil) was transferred from investment revaluation reserve to the income statement. The estimate of the recoverable amount was based on the estimated future cashflows at a discount rate of 12% applied to the business of China Cable (2001: 12%).

(b) Loan receivable is the amount advanced to the founders of an associate, East.net, which is secured by the 51% equity interest in East.net owned by these founders. Loan receivable is interest bearing at the prevailing lending rate of The Hongkong and Shanghai Banking Corporation Limited and is not expected to be settled within the next twelve months.

21 INVESTMENTS

	Listed in Hong Kong	Listed outside Hong Kong	Total
	$'000	$'000	$'000
Group			
Equity securities, at market value			
At 1 January 2002	—	—	—
Transfer from interest in associate	—	131,694	131,694
Addition during the year	2,020	—	2,020
Net unrealised (loss)/gain during the year	(620)	348,704	348,084
At 31 December 2002	**1,400**	**480,398**	**481,798**

Equity securities listed outside Hong Kong represent ordinary shares of SINA Corporation ("SINA") with nominal value of US$0.133 (equivalent to $1.04) each. SINA is incorporated in the Cayman Islands and listed on NASDAQ in the United States.

The Group has a 20.6% ownership interest in SINA. During the year, SINA ceased to be an associate of the Group as the directors consider that the Group no longer has sufficient board representation (reduced from 2 representatives in 2001 to 1 in 2002) to exert significant influence over SINA. The carrying value of the investment in associate of $131,694,000 has been reclassified as a current investment, and thereafter revalued based on the market value of the listed equity securities of $480,398,000 at 31 December 2002, with the related unrealised gain of $348,704,000 accounted for as "Non-operating income" (note 4).

22 INVENTORIES

	Group	
	2002	2001
	$'000	*$'000*
Trading and manufacturing		
Raw materials	**12,157**	46,101
Work in progress	**12,658**	14,455
Finished goods	**109,417**	94,954
	134,232	155,510
Property development		
Properties developed for sale	**30,160**	30,160
	164,392	185,670

22 INVENTORIES *(Continued)*

The amount of trading and manufacturing inventories carried at net realisable value is $33,661,000 (2001: $41,616,000).

Properties developed for sale are carried at net realisable value based on management estimates by reference to prevailing market conditions.

23 TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Debtors, prepayments and other receivables	**188,594**	200,947	**8,835**	30,391
Gross amount due from customers for contract work	**16,175**	5,902	**—**	—
Amounts due from associates	**10,916**	8,272	**—**	—
Amounts due from related companies	**35,258**	23,586	**2,581**	—
	250,943	238,707	**11,416**	30,391

All of the trade and other receivables are expected to be recovered within one year.

A credit period of 60 days to 90 days is normally granted to trade customers. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

Included in the Group's debtors, prepayments and other receivables is an amount of $8,237,000 which represents the sales proceeds from the disposal of an equity joint venture company during the year (note 34(h)). The related loss from this disposal amounted to $12,101,000. This receivable is interest bearing at the prime rate adopted by The Hongkong and Shanghai Banking Corporation Limited and is due on or before 31 December 2003.

23 TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group	
	2002	2001
	$'000	*$'000*
Current	**105,047**	39,851
Due over 6 months but within 12 months	**9,956**	5,507
Due over 12 months but within 24 months	**1,089**	1,218
	116,092	46,576

24 PLEDGED DEPOSITS

	Group	
	2002	2001
	$'000	*$'000*
Pledged deposits with banks	**3,357**	53,392

Fixed deposits of $3,357,000 (2001: $3,357,000) were pledged in respect of a bank guarantee issued to a customer of a subsidiary. In 2001, other fixed deposits in the amount of $50,035,000 were pledged as security against general banking facilities extended to certain subsidiaries.

25 CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks and other financial institutions	**41,856**	45,638	**—**	—
Cash at bank and in hand	**171,836**	239,341	**1,864**	4,852
Cash and cash equivalents in the balance sheet and cash flow statement	**213,692**	284,979	**1,864**	4,852

26 BANK LOANS

	Group	
	2002	2001
	$'000	*$'000*
Secured *(note)*	**43,465**	52,271
Unsecured	**3,206**	21,447
	46,671	73,718
Bank loans are repayable as follows:		
Within 1 year or on demand	**34,671**	73,718
Between 1 year and 2 years	**12,000**	—
	46,671	73,718

Note: The bank loans are secured by an investment property of a related company with an aggregate carrying value of $3,000,000 at 31 December 2002 and land and buildings held by subsidiaries with carrying value of $14,176,000 at 31 December 2002 (2001: $2,503,000) (note 15(d)).

At 31 December 2001, bank deposits of $50,035,000 and certain investment properties with a carrying value of $4,820,000 were pledged as securities for bank loans granted to the Group.

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Creditors, accruals and other payables	**196,099**	160,984	**3,654**	3,865
Amounts due to associates	**94**	11,506	**—**	—
Amounts due to related companies	**9,057**	19,404	**—**	12
	205,250	191,894	**3,654**	3,877

27 TRADE AND OTHER PAYABLES *(Continued)*

Included in the Group's creditors, accruals and other payables are trade creditors with the following ageing analysis:

	Group	
	2002	2001
	$'000	*$'000*
Due within 6 months or on demand	**97,243**	51,179
Due after 6 months but within 12 months	**2,704**	5,789
Due after 12 months but within 24 months	**3,280**	12,616
Due after 24 months but within 36 months	**5,570**	—
	108,797	69,584

28 EQUITY COMPENSATION BENEFITS

The Group adopted a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a general meeting on 12 April 2002, following the amendments on the Listing Rules which came into effect from September 2001. Pursuant to the New Scheme, no further options will be granted under the old share option scheme that was adopted on 23 July 1993 (the "Old Scheme") after 12 April 2002 but the provisions of the Old Scheme remain in force and all options granted prior thereto will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

Under the terms of the New Scheme, the directors may at their discretion invite employees and directors of the Company or any of its subsidiaries and associates to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of 10 years, ending on 11 April 2012, after which no further options will be granted. The exercise price of options is determinable by the board and is the highest of (i) the nominal value of the shares (ii) the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for five business days immediately preceding the date of the grant and (iii) the closing price of the shares on the Stock Exchange on the date of the offer.

The exercise period of the options granted is determinable by the board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant. A nominal consideration of $1 is payable on acceptance of the grant of options. Each option gives the holder the right to subscribe for one share.

(Expressed in Hong Kong dollars)

28 EQUITY COMPENSATION BENEFITS *(Continued)*

(a) Movements in share options

	2002	2001
	Number	*Number*
At 1 January	**25,651,000**	13,090,000
Granted	**239,712,000**	14,151,000
Exercised	**—**	(1,590,000)
At 31 December	**265,363,000**	25,651,000
Options vested at 31 December	**198,988,000**	11,500,000

(Expressed in Hong Kong dollars)

28 EQUITY COMPENSATION BENEFITS *(Continued)*

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number	2001 Number
29 February 2000	29 August 2000 to 22 July 2003	$2.796	11,500,000	11,500,000
15 August 2001	15 February 2002 to 22 July 2003	$0.7264	14,151,000	14,151,000
22 May 2002	22 May 2002 to 21 May 2012	$0.792	39,356,000	—
22 May 2002	22 August 2002 to 21 May 2012	$0.792	20,125,000	—
22 May 2002	22 August 2003 to 21 May 2012	$0.792	20,125,000	—
22 May 2002	22 August 2004 to 21 May 2012	$0.792	20,125,000	—
22 May 2002	22 August 2005 to 21 May 2012	$0.792	20,125,000	—
31 December 2002	31 December 2002 to 30 December 2012	$0.476	113,856,000	—
31 December 2002	31 March 2003 to 30 December 2012	$0.476	1,500,000	—
31 December 2002	31 March 2004 to 30 December 2012	$0.476	1,500,000	—
31 December 2002	31 March 2005 to 30 December 2012	$0.476	1,500,000	—
31 December 2002	31 March 2006 to 30 December 2012	$0.476	1,500,000	—
			265,363,000	25,651,000

28 EQUITY COMPENSATION BENEFITS *(Continued)*

(c) Details of share options granted during the year

Exercise period	Exercise price	2002 Number	2001 Number
15 February 2002 to 22 July 2003	$0.7264	—	14,151,000
22 May 2002 to 21 May 2012	$0.792	119,856,000	—
31 December 2002 to 30 December 2012	$0.476	119,856,000	—
		239,712,000	14,151,000

(d) Details of share options exercised during the year

No options were exercised during the year ended 31 December 2002 (2001: 1,590,000).

29 SHARE CAPITAL

	2002		2001	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***$'000***	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1 January	**1,198,565**	**119,856**	1,055,511	105,551
Shares issued under private placement	**—**	**—**	65,000	6,500
Shares issued under share option scheme	**—**	**—**	1,590	159
Shares issued upon acquisition of an associate	**—**	**—**	76,464	7,646
At 31 December	**1,198,565**	**119,856**	1,198,565	119,856

30 RESERVES

(a) Group

	Capital redemption reserve	Share premium	Capital reserve	Investment revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2002	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438
Capital reserve released on disposal of a subsidiary and an associate	—	—	7	—	—	—	7
Exchange differences arising on consolidation	—	—	—	—	4,863	—	4,863
Unrealised loss on revaluation	—	—	—	(54,953)	—	—	(54,953)
Impairment loss realised to income statement	—	—	—	79,353	—	—	79,353
Profit for the year	—	—	—	—	—	36,745	36,745
At 31 December 2002	**151**	**1,022,607**	**15,274**	**(24,080)**	**(2,325)**	**(198,174)**	**813,453**
Attributable to:							
The Company and subsidiaries	151	1,022,607	15,274	(24,080)	(5,608)	(194,828)	813,516
Associates	—	—	—	—	3,283	(3,346)	(63)
	151	**1,022,607**	**15,274**	**(24,080)**	**(2,325)**	**(198,174)**	**813,453**

30 RESERVES *(Continued)*

(a) Group (Continued)

	Capital redemption reserve $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2001							
— as previously reported	151	873,971	(74,841)	—	(3,980)	(95,074)	700,227
— prior year adjustment in respect of goodwill	—	—	16,616	—	—	(16,616)	—
— as restated	151	873,971	(58,225)	—	(3,980)	(111,690)	700,227
Share premium on issue of shares							
— as consideration for acquisition of an associate	—	78,720	—	—	—	—	78,720
— under share option scheme	—	846	—	—	—	—	846
— under private placement	—	69,070	—	—	—	—	69,070
Capital reserve released on disposal of an associate	—	—	54,891	—	—	—	54,891
Impairment loss on goodwill	—	—	18,601	—	—	—	18,601
Exchange differences arising on consolidation	—	—	—	—	(3,208)	—	(3,208)
Unrealised loss on revaluation	—	—	—	(48,480)	—	—	(48,480)
Loss for the year	—	—	—	—	—	(123,229)	(123,229)
At 31 December 2001	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438
Attributable to:							
The Company and subsidiaries	151	1,022,607	15,267	(48,480)	(5,577)	(232,737)	751,231
Associates	—	—	—	—	(1,611)	(2,182)	(3,793)
	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on or derived from acquisition or disposal of subsidiaries and associates and the foreign currency translation.

The investment revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the gain or loss on disposal of non-trading securities and for goodwill arising on subsidiaries and associates.

30 RESERVES *(Continued)*

(b) Company

	Capital redemption reserve	Share premium	Investment revaluation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2002	151	1,022,607	(4,730)	(231,519)	786,509
Unrealised loss on revaluation	—	—	(19,350)	—	(19,350)
Loss for the year	—	—	—	(109,762)	(109,762)
At 31 December 2002	**151**	**1,022,607**	**(24,080)**	**(341,281)**	**657,397**
At 1 January 2001	151	873,971	—	(53,930)	820,192
Share premium on issue of shares					
— as consideration for acquisition of an associate	—	78,720	—	—	78,720
— under share option scheme	—	846	—	—	846
— under private placement	—	69,070	—	—	69,070
Unrealised loss on revaluation	—	—	(4,730)	—	(4,730)
Loss for the year	—	—	—	(177,589)	(177,589)
At 31 December 2001	151	1,022,607	(4,730)	(231,519)	786,509

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2002	2001
	$'000	*$'000*
Net assets acquired:		
Property, plant and equipment	**8,212**	1,447
Inventories	**4,329**	2,957
Intangible assets	**—**	8,654
Other financial assets	**—**	138,888
Debtors, prepayments and other receivables	**619**	26,727
Cash at bank and in hand	**420**	24,391
Amounts due to group companies	**(2,084)**	(15,648)
Creditors, accruals and other payables	**(4,342)**	(7,872)
Minority shareholders' interests	**(3,347)**	(80,385)
	3,807	99,159
Goodwill on acquisition of a subsidiary	**(1,654)**	—
Total consideration	**2,153**	99,159
Satisfied by:		
Equity investments	**—**	63,994
Cash consideration	**2,153**	31,389
Current account	**—**	3,776
	2,153	99,159

Subsidiaries acquired in 2002 utilised $95,000 of the Group's net operating cash outflows.

(b) Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2002	2001
	$'000	*$'000*
Cash consideration	**(2,153)**	(31,389)
Cash and cash equivalents acquired	**420**	24,391
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(1,733)**	(6,998)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of interest in subsidiaries

	2002	2001
	$'000	*$'000*
Net assets disposed of:		
Property, plant and equipment	**1,338**	—
Inventories	**1,794**	—
Debtors, prepayments and other receivables	**7,744**	—
Cash at bank and in hand	**140**	—
Bank loans	**(660)**	—
Creditors, accruals and other payables	**(9,383)**	—
Minority shareholders' interests	**2,310**	—
	3,283	—
Capital reserve released on disposal	**7**	—
Loss on disposal	**(3,290)**	—
	—	—

(d) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of interest in subsidiaries

	2002	2001
	$'000	*$'000*
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries represents cash and cash equivalents disposed of	**(140)**	—

(e) Major non-cash transactions

(i) During the year, interest in an equity joint venture was disposed of at a consideration of $8,237,000 and the full amount of the sales proceeds was included in the Group's debtors, prepayments and other receivables (note 23).

(ii) As detailed in note 21, during the year, SINA ceased to be an associate of the Group and the carrying value of the investment in associate of $131,694,000 has been reclassified as a current investment, and a related unrealised gain of $348,704,000 was recorded in income statement.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(e) Major non-cash transactions (continued)

(iii) During the year, the Company acquired 49% of the equity interest of East.net at a consideration of $14,700,000, and a loan of $15,300,000 was made to the founders of East.net which is detailed in notes 19 and 20. A deposit of $30,000,000 for these transactions was made in 2000 and was included in trade and other receivables at 31 December 2001.

32 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Contracted for	**1,024**	879	**1,024**	879

(b) Operating lease commitments

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**4,171**	5,530	**120**	385
After 1 year but within 5 years	**4,970**	13,601	**—**	301
After 5 years	**1,990**	3,666	**—**	—
	11,131	22,797	**120**	686

(c) Other commitments

At 31 December 2002, the Group had no commitments under forward exchange contracts for hedging purposes (2001: to buy Japanese Yen 122,791,000).

33 CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Guarantees given to banks in respect of credit facilities granted to subsidiaries	**—**	—	**121,848**	76,848
Counter guarantee for a bank loan granted to an associate	**52,867**	57,855	**52,867**	57,855
	52,867	57,855	**174,715**	134,703

34 MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

(a) Transactions with and amounts paid to or received from Stone Group Corporation, a minority shareholder of the Group:

	2002	2001
	$'000	*$'000*
Sale of traded products	**19,325**	29,858
Purchase of traded products and component parts	**124**	2,163
Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services *(note (i))*	**2,592**	2,592
Interest paid	**—**	539
Interest received	**265**	22
Rental paid for staff quarters	**537**	480
Rental income on properties *(note (ii))*	**1,471**	1,756
Handling fee *(note (iii))*	**1,197**	1,903
(b) Purchase of traded products and component parts from a minority shareholder of a subsidiary	**57,460**	100,577
(c) Transactions with associates of the Group		
— Sales of traded products	**2,155**	2,780
— Purchases of traded products and component parts	**8,058**	19,277

34 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) One of the subsidiaries of Stone Group Corporation ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company from the leasing activities. No profit was shared by the Group in this arrangement as SGC Company incurred loss for the year.

(e) The Group placed deposits totalling $7,841,000 (2001: $7,087,000) as at 31 December 2002 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

(f) On 18 January 2002, the Company entered into an agreement with Stone Group Corporation to acquire from Stone Group Corporation the remaining 12.5% equity interest in Beijing Stone Electronic Technology Company Limited ("Beijing Stone Electronic") for a cash consideration of Rmb18,000,000 (equivalent to approximately $16,965,000). Beijing Stone Electronic became a wholly-owned subsidiary of the Company upon completion of this transaction on 30 January 2002.

(g) Stone Group Corporation holds in trust for Beijing Stone Electronic the 9.51% investment in China Cable pursuant to an agreement entered into between the two parties in January 2001. In April 2003, another agreement was entered into between Beijing Stone Electronic and Stone Group Corporation pursuant to which Beijing Stone Electronic has the right to sell to Stone Group Corporation (which has the obligation to buy) its 9.51% equity interest in China Cable at a consideration equal to the fair value of the investment at the time of sale but to be capped at the original investment cost of $108,388,000. The effective period for exercising such right will end on 31 December 2005.

(h) In April 2002, the Company established an equity joint venture company, Shanghai Centek Communication Industry Service Co Ltd ("Shanghai Centek") with Beijing Centek Data Communication Technology Co Ltd ("Beijing Centek") and a venture capital fund. Beijing Centek is a subsidiary of Beijing Centergate Technologies (Holdings) Co., Ltd ("Centergate"). Centergate is the major investor of an associate of the Group, and the Group's Chairman, Mr Duan Yongji is the Chief Executive Officer and director of Centergate. According to the terms of the joint venture agreement, the Company shall contribute US$5,200,000 (equivalent to approximately $40,555,000) to account for 52% of the interest in Shanghai Centek and a total contribution in the amount of US$2,600,000 (equivalent to approximately $20,277,000) has been made by the Company since its establishment.

The Company's investment in Shanghai Centek was subsequently disposed of in December 2002 at a consideration of $8,237,000 (note 23).

34 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(i) Stone Advance Technology Limited ("Stone Advance"), a wholly-owned subsidiary of the Company has entered into sales arrangements from time to time in respect of the sales of GSM module and GPS board ("GPS products") to Beijing Yizhou Qicheng Information Technology Co Ltd ("Beijing Yizhou"), a subsidiary of Beijing Centek. Sales of GPS products by Stone Advance to Beijing Yizhou during the year amounted to US$1,748,713 (equivalent to approximately $13,638,000). As at 31 December 2002, the amount due from Beijing Yizhou amounted to US$1,044,472 (equivalent to approximately $8,146,000).

(j) During the year, Stone Online Sci & Tech Co. Ltd ("Stone Online"), a 80% owned subsidiary of the Group made certain investment arrangements with and made advances to Shenzhen Stone Computer Technologies Co., Ltd. ("Shenzhen Stone") and Beijing Fureida Assets Management Co., Ltd. ("Beijing Fureida") in the amounts of Rmb9,000,000 (equivalent to approximately $8,483,000) and Rmb2,000,000 (equivalent to approximately $1,885,000) respectively. Stone Group Corporation has 7.5% equity interest in Shenzhen Stone and Centergate has 16.67% indirect equity interest in Beijing Fureida. Mr Duan is the Chief Representative of both Shenzhen Stone and Beijing Fureida. As at 31 December 2002, the amounts due from Shenzhen Stone and Beijing Fureida amounted to $8,483,000 and $1,885,000 respectively. The advances are unsecured, interest free and have no fixed terms of repayment.

Notes:

(i) In August 1998, the Company entered into a management contract whereby Stone Group Corporation agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed $2,750,000 per annum for a term of five years commencing from 23 July 1998.

(ii) A subsidiary of the Company acquired the Stone Building situated in Beijing from Stone Group Corporation during 1996 and leased various units of the Stone Building to Stone Group Corporation for a lease term of three years commencing 1 August 1996. The lease term has been renewed on an annual basis thereafter. The rental income received for the year ended 31 December 2002 was calculated at a daily rate of Rmb5 per square metre which was considered to be not materially different from the then market rental.

(iii) In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with Stone Group Corporation, pursuant to which Beijing New Technology appointed Stone Group Corporation to act as its agent to deal with all import procedural matters during the year 2000. The agreement has been renewed on an annual basis thereafter. A handling fee was payable to Stone Group Corporation pursuant to the Agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.

35 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2002 to be Beijing Stone Investment Company Limited, a company established in the PRC.

(Expressed in Hong Kong dollars)

36 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement.

Certain comparative figures have been reclassified to conform with the current year's presentation.

37 SUBSIDIARIES

Details of the principal subsidiaries which materially affected the results or assets of the Group at 31 December 2002, are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Stone Advance Technology Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Stone Potant Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Prexton Investment Limited	Hong Kong	$10,000	100%	Property investment
Stone Computer Technologies Limited	Hong Kong	$10,000	51%	Sales of computer components
Beijing Stone Electronic Technology Co., Ltd.	PRC	US$20,000,000	100%	Investment holding
Beijing Stone New Technology Industrial Company Limited*	PRC	Rmb175,000,000	100%	Investment holding and distribution and sale of electronic and electrical products and office equipment

(Expressed in Hong Kong dollars)

37 SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Shenzhen Shentong Printing Equipment Co., Ltd.*	PRC	US$3,000,000	**45.7%	Provision of sub-contracting services
Shanghai Stone-MTI Computer Engineering Company Limited	PRC	Rmb30,800,000	71%	Provision of comprehensive GIS solutions, software development and integration
Beijing Stone Industrial Control Technology Company Limited*	PRC	Rmb30,000,000	61.67%	Sale of industrial controllers products
Beijing Stone Computer Co., Ltd.*	PRC	Rmb50,000,000	51%	Manufacture and distribution of computers and network components
Shenyang Stone Limited Liability Company*	PRC	Rmb5,150,723	65%	Sale of electronic and electrical products and office equipment
Sun Stone Media Group Limited*	BVI	$8	##51%	Investment holding
Tianjin Stone Computer Equipment Corporation Limited*	PRC	US$800,000	75%	Manufacture and sale of fluorescent electronic ballasts
Stone Online Sci & Tech Co., Ltd. (Beijing)*	PRC	Rmb22,500,000	80%	Investment holding

(Expressed in Hong Kong dollars)

37 SUBSIDIARIES *(Continued)*

* Indirect holding.

\#\# This subsidiary is 100% owned by Sun Stone New Media Limited in which the Company has a 51% direct interest.

** This subsidiary is 24% directly owned by the Company and 31% directly owned by Beijing Stone Office Equipment Technology Co. Ltd. in which the Company has a 70% direct interest.

38 ASSOCIATES

Details of the principal associates, which materially affected the results or assets of the Group at 31 December 2002, are as follows:

Name of company	Place of establishment and operation	Registered capital	Attributable interest	Principal activities
Beijing GOT Business Computer Systems Co., Ltd.*	PRC	US$5,000,000	20%	Manufacture of electronic cash registers
Beijing Stone Zhi Neng Construction System Company*	PRC	Rmb15,000,000	40%	Installation of intelligent system for housing estates and commercial buildings
Beijing Stone Digital Technology Co., Ltd.*	PRC	Rmb50,000,000	30%	Provision for electronic commerce service
Mitsubishi Stone Semiconductor Company Limited	PRC	US$40,370,000	21.7%	Packaging and testing of Mitsubishi's semiconductor chips
Beijing East.net Information Technology Co., Ltd.*	PRC	Rmb8,276,800	49%	Provision for internet related services
Dalian Free-trading Zone Hua Qing International Engineering & Trading Co., Ltd.	PRC	Rmb24,000,000	51%	Provision for e-commerce and logistics management
Censoft Company Limited*	PRC	Rmb30,000,000	30%	Development and distribution of application software

* Indirect holding.