

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 17 to the financial statements.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after balance sheet date
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investment in subsidiaries

The adoption of these revised and new SSAPs has led to a change in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, these revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation. Details of such restatement are set out below.

The adoption of these revised and new SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

Goodwill and impairment of assets

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. However, impairment loss in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognised retrospectively in accordance with SSAP 31. Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE continued**Goodwill and impairment of assets** continued

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets (including property and equipment, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined.

The financial effect of the adoption of these new accounting policies is summarised below:

	THE GROUP		
	Contributed surplus HK\$'000	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001			
As originally stated	62,874	268,708	331,582
Retrospective recognition of impairment of goodwill held in reserves	438,118	(438,118)	–
As restated	500,992	(169,410)	331,582

The effect of this change in accounting policies on the results for the current and prior periods is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Amortisation of goodwill	(2,997)	–
Impairment loss on goodwill held in reserves	–	(438,118)
	(2,997)	(438,118)

Reconciliation of the profit for the year ended 31 December 2000 is as follows:

	THE GROUP
	2000 HK\$'000
Profit as originally stated	101,767
Impairment loss on goodwill held in reserves	(438,118)
Loss as retrospectively restated	(336,351)

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

Goodwill

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

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment

Property and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

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

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, as follows:

Land and buildings	over the lease terms
Leasehold improvements	the shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rental are charged to the income statement on a straight-line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Investments

Investments are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Intangible assets

Intangible assets represent trading rights in the exchanges in Hong Kong. They are included in the balance sheet at cost and amortised on a straight-line basis over their estimated useful lives.

Club membership

Club membership is stated at cost less any identified impairment loss.

Inventories

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

Revenue recognition

Fees and commission income are recognised on a trade date basis when the services are rendered.

Realised profits and losses arising from trading of financial products are accounted for in the period in which the contracts/positions are closed as the difference between the net sales proceeds and the carrying amount of the financial products. Open contracts/positions are valued at market rate with unrealised profits and losses included in the income statement.

Information technology advisory income is recognised when the services are rendered.

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

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

Taxation

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

3. SIGNIFICANT ACCOUNTING POLICIES continued**Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Pension scheme

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

4. TURNOVER

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Continuing operations:		
Fees and commission income	200,973	326,483
Interest income	52,936	85,074
(Loss) Gain on trading of securities, options and futures	(30,502)	60,148
Information technology advisory income in Hong Kong	1,520	—
Sales of furniture and household goods, net of discounts and returns	748,633	—
	973,560	471,705
Discontinued operations:		
Information technology advisory income in the United States of America	—	1,131
	973,560	472,836

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions, namely, financial services, retailing, information technology and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Financial services	Broking, financing, proprietary trading and corporate finance services
Retailing	Sales of furniture and household goods
Information technology	Providing information technology advisory services
Investment holding	Strategic investment

Segment information about these businesses for the year ended 31 December 2001 is presented below.

Income statement for the year ended 31 December 2001

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	223,407	748,633	1,520	–	973,560
Segment (loss) profit	(136,914)	14,616	(47,505)	(259,134)	(428,937)
Unallocated corporate expenses					(54,790)
Gain on deemed disposal of investments in subsidiaries					2,351
Loss before taxation					(481,376)
Taxation credit					152
Net loss attributable to shareholders					(481,224)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS continued**Business segments** continued**Balance sheet at 31 December 2001**

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	932,359	545,750	6,344	397,611	1,882,064
Unallocated corporate assets					30,072
Consolidated total assets					1,912,136
LIABILITIES					
Segment liabilities	605,817	178,335	17,592	–	801,744
Unallocated corporate liabilities					12,911
Consolidated total liabilities					814,655

Other information for the year ended 31 December 2001

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property and equipment	21,106	20,573	143	–	10,216	52,038
Depreciation and amortisation	23,934	24,721	11	–	6,059	54,725
Impairment losses recognised in income statement	2,073	–	–	231,332	5,454	238,859
Provision for bad and doubtful debts	43,561	–	–	1,357	–	44,918

5. BUSINESS AND GEOGRAPHICAL SEGMENTS continued**Business segments** continued**Income Statement for the year ended 31 December 2000**

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000 (restated)
Turnover	471,526	–	1,310	–	472,836
Segment (loss) profit	(5,428)	–	(208,014)	(135,025)	(348,467)
Unallocated corporate expenses					(28,977)
Loss before taxation					(377,444)
Taxation credit					1,428
Net loss attributable to shareholders					(376,016)

Balance sheet at 31 December 2000

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	1,511,866	–	22,846	361,472	1,896,184
Unallocated corporate assets					22,234
Consolidated total assets					1,918,418
LIABILITIES					
Segment liabilities	569,328	–	21,505	–	590,833
Unallocated corporate liabilities					14,403
Consolidated total liabilities					605,236

5. BUSINESS AND GEOGRAPHICAL SEGMENTS continued**Business segments** continued**Other information for the year ended 31 December 2000**

	Financial services HK\$'000	Retailing HK\$'000	Direct investment HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000 (restated)
Additions of property and equipment	49,010	–	–	802	–	49,812
Depreciation and amortisation	12,055	–	–	1,141	7,400	20,596
Impairment losses recognised in income statement	–	–	453,718	–	–	453,718
Provision for bad and doubtful debts	30,900	–	–	–	–	30,900

Geographical segments

The Group's information technology operations are located in Hong Kong and the United States of America. All the Group's other operations are located in Hong Kong. During the year, the Group ceased its information technology business in the United States of America.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover		Contribution to loss before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000 (restated)
Hong Kong	973,560	471,705	(437,717)	(169,430)
United States of America	–	1,131	(43,659)	(208,014)
	973,560	472,836	(481,376)	(377,444)

Turnover from the Group's discontinued operations was derived from the United States of America (2001: nil, 2000: HK\$1,131,000).

6. OTHER REVENUE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Gain on deemed disposal of interests in Pricerite and its subsidiaries	2,351	–
Gain on deemed disposal of interests in CFSG (formerly known as CASH on-line Limited) and its subsidiaries	–	157,724
Gain on disposal of unlisted investment securities	–	37,500
	2,351	195,224

7. SALARIES, ALLOWANCES AND COMMISSION

	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and commission (including Directors' remuneration)	230,514	205,430
Contributions to retirement benefits scheme	9,277	697
	239,791	206,127

8. LOSS ON DISCONTINUED OPERATIONS

In response to the rapid deterioration of the global information technology business environment, the Group commenced a restructuring plan during the year for its Technology Development Group ("TDG"). The plan included the downsizing and consolidating of some operations of TDG to preserve resources only on those technology projects with the most promising potentials. As part of the plan, the Group closed its information technology business in the United States of America in July 2001.

The results of the subsidiaries for the period from 1 January 2001 to the date of discontinuance, which have been included in the consolidated financial statements, are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Turnover	–	1,131
Loss before taxation:		
Write off of property and equipment	11,170	–
Redundancy costs	32,489	–
	43,659	–

9. FINANCE COSTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank overdrafts and loans wholly repayable within five years	10,426	12,633
Finance leases	309	469
	10,735	13,102

10. DIRECTORS' REMUNERATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive Directors	–	–
Independent Non-executive Directors	–	–
Other emoluments paid to Executive Directors:		
Salaries, allowances and other benefits	7,940	9,645
Contributions to retirement benefits schemes	284	75
Performance related incentive payment	3,449	–
Total remuneration	11,673	9,720

The remuneration of the Directors fell within the following bands:

	THE GROUP	
	2001 Number of Directors	2000 Number of Directors
Nil – HK\$1,000,000	3	7
HK\$1,500,001 – HK\$2,000,000	3	2
HK\$2,000,001 – HK\$2,500,000	3	1
HK\$2,500,001 – HK\$3,000,000	–	1
	9	11

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

11. EMPLOYEES' EMOLUMENTS

The five highest paid employees included five (2000: three) Directors of the Company, details of whose remuneration are included in the above disclosures. The details of the remuneration of the remaining individuals were as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	–	4,095
Contributions to retirement benefit schemes	–	85
	–	4,180

The remuneration of the remaining highest paid individuals fell within the following band:

	THE GROUP	
	2001 Number of employees	2000 Number of employees
HK\$2,000,001 – HK\$2,500,000	–	2

12. LOSS BEFORE TAXATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Advertising and promotion expenses	36,949	98,492
Amortisation of intangible assets	1,830	1,823
Amortisation of goodwill	2,997	–
Auditors' remuneration	1,723	1,300
Depreciation:		
Owned assets	48,084	17,665
Leased assets	1,814	1,108
	49,898	18,773
Loss on disposal of property and equipment	20,143	250
Loss on disposal of subsidiaries	1,023	–
Operating lease rentals in respect of land and buildings:		
Minimum lease payments	98,821	17,175
Contingent rents	9,906	–
	108,727	17,175
Provision for bad and doubtful debts	44,918	30,900
Provision for inventory obsolescence and write-off of inventories (included in the changes in inventories of finished goods)	6,795	–
Net foreign exchange (gain) loss	(47)	32
Write-off of deposit for the development of foreign exchange internet platform	–	1,950

13. TAXATION CREDIT

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax:		
Provision for the year	(200)	–
Overprovision in prior years	352	148
	152	148
Deferred taxation (note 32)	–	1,280
Taxation attributable to the Company and its subsidiaries	152	1,428

Hong Kong Profits Tax is calculated at 16% on the Group's estimated assessable profits arising in Hong Kong.

No tax is payable on the profit for the year ended 31 December 2000 arising in Hong Kong since there is no estimated assessable profits.

14. DISTRIBUTION

During the year ended 31 December 2000, the Company distributed 498,123,217 shares of CFSG to the shareholders of the Company. Particulars of the distribution in specie of shares in CFSG were set out in the Company's circular dated 2 August 2000.

15. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended 31 December 2001 together with the comparative figures for 2000 are as follows:

	2001 HK\$'000	2000 HK\$'000 (restated)
Loss for the purpose of basic loss per share	(454,036)	(336,351)
Adjustment to the share of result of subsidiaries based on dilution of their earnings per share	(8)	–
Loss for the purpose of diluted loss per share	(454,044)	(336,351)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	6,293,608,096	5,085,761,055

The calculation of diluted loss per share does not assume the exercise of the Company's outstanding share options and warrants as the exercise price of those options and warrants were higher than the average market price of shares during the two years ended 31 December 2001.

15. LOSS PER SHARE continued

The adjustment to comparative basic earnings (loss) per share, arising from the change in accounting policies shown in note 2 above, is as follows:

	HK cents
Reconciliation of 2000 earnings (loss) per share:	
Reported earnings per share before adjustments	2.0
Adjustments arising from the adoption of SSAPs 30 and 31	(8.6)
Restated loss per share	(6.6)

16. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1 January 2001	14,000	–	51,152	88,220	4,433	157,805
Acquired on acquisition of subsidiaries	73,500	–	25,249	43,133	488	142,370
Additions	–	10,000	18,629	22,023	1,386	52,038
Disposals	–	–	(22,631)	(17,388)	(27)	(40,046)
At 31 December 2001	87,500	10,000	72,399	135,988	6,280	312,167
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2001	1,266	–	12,207	23,669	1,050	38,192
Provided for the year	2,780	–	18,625	27,224	1,269	49,898
Impairment loss recognised in the income statement	5,454	–	–	2,073	–	7,527
Eliminated on disposals	–	–	(12,997)	(6,895)	(11)	(19,903)
At 31 December 2001	9,500	–	17,835	46,071	2,308	75,714
NET BOOK VALUES						
At 31 December 2001	78,000	10,000	54,564	89,917	3,972	236,453
At 31 December 2000	12,734	–	38,945	64,551	3,383	119,613

16. PROPERTY AND EQUIPMENT continued

The leasehold land and buildings of the Group are situated in Hong Kong. The lease terms of the leasehold land and buildings are as follows:

	2001 HK\$'000	2000 HK\$'000
Long leases	25,400	–
Medium-term leases	52,600	12,734
	78,000	12,734

The leasehold land and buildings with a net book value of approximately HK\$71,000,000 (2000: nil) held by the Group were pledged to secure general banking facilities granted to the Group.

The net book values of furniture, fixtures and equipment of HK\$89,917,000 and motor vehicles of HK\$3,972,000 include an amount of HK\$1,428,000 (2000: HK\$1,706,000) and HK\$2,764,000 (2000: HK\$3,086,000) respectively in respect of assets held under finance leases.

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1 January 2001	19,682	11,130	30,812
Disposals	(11,256)	–	(11,256)
At 31 December 2001	8,426	11,130	19,556
ACCUMULATED DEPRECIATION			
At 1 January 2001	7,387	7,342	14,729
Provided for the year	2,823	2,184	5,007
Eliminated on disposals	(5,930)	–	(5,930)
At 31 December 2001	4,280	9,526	13,806
NET BOOK VALUES			
At 31 December 2001	4,146	1,604	5,750
At 31 December 2000	12,295	3,788	16,083

17. INVESTMENTS IN SUBSIDIARIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	60,793	60,793
Impairment loss recognised	(60,793)	(60,793)
	—	—

The following table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Country/ Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Halo Solutions Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology advisory services
CASH E-Trade Limited	Hong Kong	Ordinary HK\$4,000,000	50.08	Provision of electronic trading platform for trading financial products, provision of electronic financial services and investment holding
CASH Insurance Services Limited	Hong Kong	Ordinary HK\$100,000	50.08	Insurance broking
CASH Payment Services Limited	Hong Kong	Ordinary HK\$2	50.08	Provision of payment gateway services
CASH Research Limited (Formerly known as e-finance.com.hk Limited)	Hong Kong	Ordinary HK\$26,000,000	50.08	Operation of a financial information website
Celestial Capital Limited	Hong Kong	Ordinary HK\$17,000,000	50.08	Provision of corporate finance services
Celestial Commodities Limited	Hong Kong	Ordinary HK\$10,000,000	50.08	Futures and options broking and trading

17. INVESTMENTS IN SUBSIDIARIES continued

Name	Country/ Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Celestial Finance Limited	Hong Kong	Ordinary HK\$20,000,002 Non-voting deferred* HK\$10,000,000	50.08	Provision of share margin financing
Celestial (International) Securities & Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred* HK\$10,000,000	50.08	Investment holding and money lending
Celestial Securities Limited	Hong Kong	Ordinary HK\$50,000,000	50.08	Securities and equity options broking and trading
Pricerite Stores Limited	Hong Kong	Ordinary HK\$1,000 Deferred non-voting** HK\$5,000,000	66.18	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	66.18	Retailing of furniture and household goods through a website
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	66.18	Retailing of cosmetic and skin care products

* The non-voting deferred shares carry no rights to dividends, no rights to vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up or otherwise.

** The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards dividends, the holders thereof are not entitled to any dividend unless the net profits of the relevant company available for dividend (as certified by its auditors) as earned in the year in respect of which a dividend is declared exceed HK\$100 billion, in which case the holders of the non-voting deferred shares are collectively entitled to one thousandth of one per cent of the amount of the profits so available which exceed HK\$100 billion; and
- (c) as regards capital, on a return of assets or a winding-up, the holders of such non-voting deferred shares are entitled out of the surplus assets of the relevant company to a return of capital paid on such non-voting deferred shares held by then after a total of HK\$1,000 billion has been distributed in such winding-up in respect of each of the issued ordinary shares in the relevant company.

The principal place of operation of the subsidiaries is Hong Kong. All the subsidiaries shown above are indirectly held by the Company.

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	–	15,507
Loan to an associate	164,466	45,648
	164,466	61,155

The loan to an associate is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of Directors, the loan will not be repaid in the next twelve months.

At 31 December 2001, the Group had interests in the following associates:

Name	Place/ country of incorporation	Form of business structure	Provision of nominal value of issued ordinary capital held by the Group %	Principal activities
Transtech Services Group Limited	Hong Kong	Incorporated	46.25	Investment holding
Transtech Photonics Limited	Hong Kong	Incorporated	46.25	Producing photonics products and system but had not yet commenced production during the year
Transtech Networks Limited	British Virgin Islands	Incorporated	46.25	Provision of consultancy services of photonics technology but had not yet commenced business during the year

Transtech Photonics Limited and Transtech Networks Limited are the wholly-owned subsidiaries of Transtech Services Group Limited.

The principal place of operation of these companies is Hong Kong.

The following details have been extracted from the consolidated audited financial statements of Transtech Services Group Limited.

18. INTERESTS IN ASSOCIATES continued

	2001 HK\$'000	2000 HK\$'000
Non-current assets	327,506	88,818
Current assets	9,825	5,679
Non-current liabilities	328,932	91,295
Current liabilities	35,845	2,200
Net loss for the year	28,449	3,626

19. INVESTMENTS

	Investment securities		Other investments		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities:						
Non-current						
Unlisted, at cost	301,500	191,500	–	–	301,500	191,500
Impairment loss recognised	(244,500)	(15,600)	–	–	(244,500)	(15,600)
Current	57,000	175,900	–	–	57,000	175,900
Listed in Hong Kong, at market value	–	–	33,502	30,245	33,502	30,245
	57,000	175,900	33,502	30,245	90,502	206,145

In response to the rapid deterioration of the global information technology business environment during the year, the Group assessed the recoverable amounts of its investments. Total impairment loss of approximately HK\$228,900,000 was recognised. In the opinion of the Directors, the carrying value of the investments as at 31 December 2001 represented the net selling price of these investments which was determined by reference to the consideration received from the disposal of the Group's investment in the similar business.

20. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisitions of subsidiaries	100,596
Eliminated on deemed disposals	(8,995)
At 31 December 2001	91,601
AMORTISATION	
Charged for the year and at 31 December 2001	(2,997)
NET BOOK VALUE	
At 31 December 2001	88,604

The amortisation period adopted for goodwill is from 10 to 20 years.

21. INTANGIBLE ASSETS

	THE GROUP HK\$'000
COST	
At 1 January 2001 and at 31 December 2001	18,235
AMORTISATION	
At 1 January 2001	1,823
Charged for the year	1,830
At 31 December 2001	3,653
NET BOOK VALUES	
At 31 December 2001	14,582
At 31 December 2000	16,412

Intangible assets represent trading rights in exchanges in Hong Kong and are amortised over 10 years.

22. OTHER ASSETS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Club memberships	5,638	4,928	–	–
Deposits for long term investments/projects	39,000	39,000	–	39,000
Statutory and other deposits	9,429	7,529	–	–
	54,067	51,457	–	39,000

23. LOANS RECEIVABLE

The maturity of the loans receivable is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Matured within 180 days	22,770	–
Matured between 181 days to 365 days	1,700	72,000
Matured within one year	24,470	72,000
Matured over one year	42,646	114,252
	67,116	186,252

24. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Finished goods held for sale	53,983	–

Finished goods of approximately HK\$8,479,000 (2000: nil) are carried at net realisable value.

25. ACCOUNTS RECEIVABLE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	10,928	5,036
Cash clients	11,817	11,789
Margin clients	221,456	257,637
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	43,674	44,168
Trade debtors – retailing	2,997	–
	290,872	318,630

The settlement terms of accounts receivable arising from the business of dealing in securities and equity options are two days after trade date, and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

Except for the loans to share margin clients as mentioned below, all the above balances aged within 30 days.

Loans to share margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing. Included in accounts receivable from margin clients arising from the business of dealing in securities is an amount of approximately HK\$25,220,000 (2000: HK\$18,695,000) due from Suffolk, in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. The amount is secured by pledged securities and repayable on demand, and bears interest at commercial rates which are similar to the rates offered to other margin clients. The maximum amount outstanding during the year is HK\$25,220,000 (2000: HK\$36,143,000).

The aged analysis of trade debtors – retailing at the balance sheet date is as follows:

	2001 HK\$'000	2000 HK\$'000
0 – 30 days	2,609	–
31 – 60 days	388	–
	2,997	–

The Group allows an average credit period of 60 days to its trade debtors.

26. PLEDGED BANK DEPOSITS

At the balance sheet date, the Group's bank deposits of HK\$42,868,000 (2000: HK\$27,260,000) were pledged to banks to secure the general banking facilities granted to subsidiaries and an associate, and to secure foreign exchange margin trading facilities granted to a subsidiary. In addition, the Group's bank deposit of HK\$877,000 (2000: HK\$877,000) was pledged to secure a bank guarantee of HK\$877,000 (2000: HK\$877,000) given to one of the Group's landlords.

27. ACCOUNTS PAYABLE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	–	8,331
Cash clients	243,866	233,357
Margin clients	52,575	32,386
Accounts payable to clients arising from the business of dealing in futures and options	119,826	100,642
Trade creditors – retailing	131,779	–
	548,046	374,716

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to share margin clients, the age of these balances is within 30 days.

Amounts due to share margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts payable to clients arising from the business of dealing in futures and options are margin deposits received from clients for their trading of futures and options. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of futures and options dealing.

The aged analysis of trade creditors – retailing at the balance sheet date is as follows:

	2001 HK\$'000	2000 HK\$'000
0 – 30 days	35,671	–
31 – 60 days	30,784	–
61 – 90 days	24,989	–
Over 90 days	40,335	–
	131,779	–

28. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable under finance leases:				
Within one year	2,033	2,356	1,988	2,146
In the second to fifth year inclusive	893	1,710	749	1,627
	2,926	4,066	2,737	3,773
Less: Future finance charges	189	293	–	–
Present value of lease obligations	2,737	3,773	2,737	3,773
Less: Amount due for payment within one year			(1,988)	(2,146)
Amount due for payment after one year			749	1,627

It is the Group's policy to lease certain of its furniture, fixtures and equipment, and motor vehicles under finance leases. The average lease term is 2 to 4 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and an amount of HK\$599,000 (2000: HK\$1,478,000) is secured by a guarantee given by a subsidiary.

29. BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts	10,248	36,362
Bank loans	127,000	85,000
Trust receipt loans	18,341	–
	155,589	121,362
Unsecured	496	5,771
Secured	155,093	115,591
	155,589	121,362

29. BANK BORROWINGS continued

The bank borrowings bear interest at commercial rates and are repayable on demand or within one year. These borrowings are used to finance the financing business and the retail business of the Group.

At 31 December 2001, the Group's bank borrowings of HK\$155,093,000 (2000: HK\$115,591,000) were secured by:

- (a) corporate guarantees from a subsidiary and the Company;
- (b) marketable securities of the Group's clients (with clients' consent);
- (c) pledge of the Group's certain leasehold land and buildings; and
- (d) pledge of HK\$8,500,000 (2000: nil) bank deposits of a subsidiary.

30. SHARE CAPITAL

	notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2000 and at 1 January 2001		8,000,000	800,000
Increase during the year		2,000,000	200,000
At 31 December 2001		10,000,000	1,000,000
Issued and fully paid:			
At 1 January 2000		4,960,667	496,067
Issued as consideration to acquire 8.7% of the issued share capital of CFSG	(a)	463,147	46,315
Placement of shares	(b)	479,000	47,900
Exercise of warrants	(c)	486	48
Exercise of share options		20,598	2,060
At 31 December 2000 and at 1 January 2001		5,923,898	592,390
Issued as consideration to acquire 78.44% of the issued capital of Pricerite	(d)	507,654	50,765
Issued as consideration for general offer related to the acquisition of Pricerite	(d)	164	16
Shares repurchased and cancelled	(e)	(37,362)	(3,736)
At 31 December 2001		6,394,354	639,435

30. SHARE CAPITAL continued

notes:

(a) Acquisition of 8.7% of the issued share capital of CFSG

Pursuant to an agreement dated 4 September 2000, the Company purchased 175,000,000 ordinary shares of HK\$0.10 each in CFSG from Cash Guardian at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 ordinary shares of HK\$0.10 each in the Company to Cash Guardian at HK\$0.60 per share.

(b) Placement of shares

Pursuant to a private placing agreement dated 8 December 2000, Cash Guardian sold a total of 479,000,000 ordinary shares of HK\$0.10 each in the Company to certain independent third parties at HK\$0.30 per share and the Company in turn allotted and issued 479,000,000 ordinary shares of HK\$0.10 each of the Company to Cash Guardian at HK\$0.30 per share.

The proceeds of the placing, before expenses, totalled approximately HK\$143,700,000. The proceeds were used to provide additional working capital for the Group. These shares ranked pari passu with all other shares in issue in all respect.

(c) Warrants

On 14 July 2000, the Company issued 497,591,725 bonus issue of warrants ("Bonus Warrants") to the shareholders of the Company, whose addresses were in Hong Kong as shown in the register of members of the Company at the close of business on 7 July 2000 at a distribution ratio of one warrant for every ten shares of HK\$0.10 each in the Company. Each unit of the Bonus Warrants will give the holder the right to subscribe in cash for one ordinary share of HK\$0.10 of the Company at a subscription price of HK\$0.65 per share at any time from 20 July 2000 to and including 31 July 2002. During the year ended 31 December 2000, the registered holders of 486,060 Bonus Warrants exercised their rights to subscribe for 486,060 ordinary shares in the Company.

On 14 July 2000, the Company issued 496,440,000 warrants ("Placing Warrants") to independent investors at a price of HK\$0.12 per Placing Warrant. Each unit of the Placing Warrants will give the holder the right to subscribe in cash for one ordinary share of HK\$0.10 in the Company at an subscription price of HK\$0.60 per share at any time from 20 July 2000 to and including 31 January 2002.

During the year, no warrant holders exercised their rights to subscribe for ordinary shares in the Company. At the balance sheet date, the Company had 497,105,665 Bonus Warrants and 496,440,000 Placing Warrants. Exercise in full of such warrants (if the subscription prices are not to be adjusted) would result in the issue of 993,545,665 additional shares of HK\$0.10 each.

(d) Acquisition of majority interests in Pricerite

On 9 February 2001, the Company entered into agreements with Miliway Resources Limited ("Miliway") and Joyplace Inc ("Joyplace"), pursuant to which the Company agreed to purchase or procure the purchase of 320,000,000 and 115,132,000 shares of HK\$0.10 each in Pricerite respectively from Miliway and Joyplace at a consideration of HK\$112,000,000 and HK\$40,296,200 respectively. The considerations were settled by the issue and allotment of 373,333,333 and 134,320,667 shares of HK\$0.10 each in the Company.

Following the completion of the agreements with Miliway and Joyplace, the Company made unconditional general offers for all the issued shares in Pricerite on the basis of one share in Pricerite for HK\$0.35 or six shares in Pricerite for seven shares in the Company, and the outstanding options which entitle the holders to subscribe for shares in Pricerite on the basis of each option for HK\$0.0001. During the period of the general offers, the Company issued 164,605 shares of HK\$0.10 each in the Company to acquire 141,096 shares of HK\$0.10 each in Pricerite.

(e) Share repurchased

The Company repurchased 37,362,000 own shares at a total consideration (before expenses) of HK\$6,504,276. All the shares repurchased were cancelled upon repurchase.

(f) Share options

During the year, no share options were exercised to subscribe ordinary shares of the Company.

Exercise price per share	Exercise period	Date of share options granted	Number of shares options outstanding at 31 December 2001 '000
HK\$0.23	13.11.2000 – 12.5.2002	13.5.1999	750
HK\$0.59	8.4.2000 – 7.4.2002	4.10.1999	152,560
HK\$0.61	1.11.2000 – 31.10.2002	15.11.1999	10,000
HK\$0.80	10.1.2001 – 9.1.2003	10.1.2000	10,000
HK\$0.80	11.7.2000 – 10.7.2002	10.1.2000	500
HK\$0.35	1.12.2000 – 30.11.2002	1.6.2000	55,000
HK\$0.49	1.2.2001 – 31.1.2003	28.7.2000	1,000
HK\$0.27	16.5.2001 – 15.5.2003	6.11.2000	56,000
HK\$0.24	16.8.2001 – 15.8.2003	2.2.2001	6,000
HK\$0.13	1.3.2002 – 28.2.2004	31.8.2001	90,000
			381,810

The exercise in full of the outstanding 381,810,000 share options at 31 December 2001 would, under the present capital structure of the Company, result in the issue of 381,810,000 additional shares for a total cash consideration, before expenses, of approximately HK\$152,683,000.

31. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	(Accumulated losses) Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2000	770,377	19,800	1,160	–	22,521	(144,599)	669,259
Reduction of share premium transferred to contributed surplus	(398,582)	398,582	–	–	–	–	–
Amount transfer to write off against the accumulated losses and for distribution of shares in CFSG	–	(398,582)	–	–	–	398,582	–
Issue of shares	327,373	–	–	–	–	–	327,373
Share issue expenses	(6,367)	–	–	–	–	–	(6,367)
Issue of warrants	–	–	–	59,573	–	–	59,573
Exercise of share options	3,153	–	–	–	–	–	3,153
Exercise of warrants	267	–	–	–	–	–	267
Reduction of share premium transferred to contributed surplus	(500,000)	500,000	–	–	–	–	–
Realisation on completion of the deemed disposal of subsidiaries	–	–	–	–	(22,521)	–	(22,521)
Goodwill on acquisition of subsidiaries and associates	–	(456,926)	–	–	–	–	(456,926)
Net profit for the year	–	–	–	–	–	101,767	101,767
Arising on distribution	–	–	–	12,314	–	–	12,314
Distribution	–	–	–	–	–	(87,042)	(87,042)
At 31 December 2000 and at 1 January 2001							
– as originally stated	196,221	62,874	1,160	71,887	–	268,708	600,850
– prior period adjustment (note 2)	–	438,118	–	–	–	(438,118)	–
– as restated	196,221	500,992	1,160	71,887	–	(169,410)	600,850
Issue of shares	101,564	–	–	–	–	–	101,564
Share issue expenses	(816)	–	–	–	–	–	(816)
Premium arising from repurchase of shares	(2,934)	–	–	–	–	–	(2,934)
Goodwill reversed on disposal of an associate	–	18,508	–	–	–	–	18,508
Net loss for the year	–	–	–	–	–	(454,036)	(454,036)
At 31 December 2001	294,035	519,500	1,160	71,887	–	(623,446)	263,136
Attributable to:							
Company and subsidiaries	294,035	519,500	1,160	71,887	–	(535,237)	351,345
Associates	–	–	–	–	–	(88,209)	(88,209)
	294,035	519,500	1,160	71,887	–	(623,446)	263,136

31. RESERVES continued

	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January 2000	768,339	80,593	–	(311,540)	537,392
Reduction of share premium transferred to contributed surplus	(398,582)	398,582	–	–	–
Amount transfer to write off against the accumulated losses and for distribution of shares in CFSG	–	(398,582)	–	398,582	–
Reduction of share premium transferred to contributed surplus	(500,000)	500,000	–	–	–
Issue of shares	327,373	–	–	–	327,373
Share issue expenses	(6,367)	–	–	–	(6,367)
Issue of warrants	–	–	59,573	–	59,573
Exercise of share options	3,153	–	–	–	3,153
Exercise of warrants	267	–	–	–	267
Net loss for the year	–	–	–	(23,595)	(23,595)
Distribution	–	–	–	(87,042)	(87,042)
At 31 December 2000 and at 1 January 2001	194,183	580,593	59,573	(23,595)	810,754
Issue of shares	101,564	–	–	–	101,564
Share issue expenses	(816)	–	–	–	(816)
Premium arising from repurchase of shares	(2,934)	–	–	–	(2,934)
Net loss for the year	–	–	–	(645,908)	(645,908)
At 31 December 2001	291,997	580,593	59,573	(669,503)	262,660

The contributed surplus of the Group arose as a result of the group reorganisation in 1994 and represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

The contributed surplus of the Company arose as a result of the group reorganisation in 1994 and represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.

The capital reserve of the Group as at 1 January 2000 represented gain arising from the deemed disposal of interests in subsidiaries in which the disposal had not yet been completed at the year ended 31 December 1999. During the year, the amount was transferred to the income statement on completion of the disposal of subsidiaries.

Pursuant to the special resolutions passed at the special general meetings of the Company held on 1 September 2000 and 22 December 2000, the share premium account of the Company was reduced by approximately HK\$398,582,000 and HK\$500,000,000 respectively. The amount of HK\$398,582,000 arising from the reduction of the share premium account was credited to the contributed surplus account. An amount of HK\$398,582,000 of the contributed surplus was written off against the accumulated losses of the Company as at 1 September 2000 and for the distribution of shares in CFSG as special dividend in specie to the shareholders of the Company. Particulars of the reduction were set out in the Company's circular dated 2 August 2000 and were approved by the shareholders on 1 September 2000. The amount of HK\$500,000,000 arising from the reduction of the share premium account was credited to the contributed surplus account. Particulars of the reduction were set out in the Company's circular dated 29 November 2000 and were approved by the shareholders on 22 December 2000.

32. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 January	–	1,280	–	1,200
Written back during the year (note 13)	–	(1,280)	–	(1,200)
At 31 December	–	–	–	–

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

	THE GROUP Unprovided		THE COMPANY Unprovided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:				
Estimated tax losses	59,570	75,284	–	–
Excess of tax allowances over depreciation	(10,177)	(7,368)	–	107
	49,393	67,916	–	107

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

The amount of unprovided deferred taxation credit (charge) for the year were as follows:

	THE GROUP Unprovided		THE COMPANY Unprovided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing difference because of:				
Estimated tax losses (utilising) arising	(15,714)	47,511	–	(443)
(Excess) Deficit of tax allowances over depreciation	(2,809)	(7,177)	(107)	107
	(18,523)	40,334	(107)	(336)

33. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000 (restated)
Loss before taxation	(481,376)	(377,444)
Share of losses of associates	4,758	57,994
Gain on deemed disposal of interests in Pricerite and its subsidiaries	(2,351)	–
Loss on disposal of an associate	25,457	–
Loss on disposal of subsidiaries	1,023	–
Interest expenses	10,735	13,102
Amortisation of intangible assets	1,830	1,823
Amortisation of goodwill	2,997	–
Depreciation	49,898	18,773
Impairment loss on investments	228,900	15,600
Impairment loss on property and equipment	7,527	–
Impairment loss on goodwill held in reserves	–	438,118
Gain on deemed disposal of interests in CFSG and its subsidiaries	–	(157,724)
Gain on disposal of investment securities	–	(37,500)
Write-off of deposit for the development of foreign exchange internet platform	–	1,950
Provision for bad and doubtful debts	44,918	30,900
Provisions for inventory obsolescence and write-off of inventories	6,795	–
Loss on disposals of property and equipment	20,143	250
Unrealised loss on other investments	5,986	6,874
Decrease (Increase) in investments	8,978	(36,303)
Increase in bank balances – trust and segregated accounts	(68,178)	(45,055)
(Decrease) Increase in loans receivable	7,856	(200,304)
Increase in inventories	(8,141)	–
Decrease in accounts receivable	22,120	230,382
Increase in prepayments, deposits and other receivables	(19,261)	(22,117)
Increase (Decrease) in accounts payable	65,538	(26,832)
(Decrease) Increase in accrued liabilities and other payables	(18,998)	18,852
Increase in amount due to an affiliated company	–	45,850
Net cash outflow from operating activities	(82,846)	(22,811)

34. DISTRIBUTION OF SHARES IN CFSG

On 1 September 2000, the Company distributed 498,123,127 shares of CFSG to the shareholders of the Company thereby reducing the Company's interest in CFSG from 65.80% to 41.08%. The net assets disposed of were as follows:

	2001 HK\$'000	2000 HK\$'000 (restated)
NET ASSETS DISPOSED OF		
Property and equipment	–	17,749
Prepayments, deposits and other receivables	–	15,244
Bank balances	–	336,253
Accrued liabilities and other payables	–	(21,073)
Amount due to an affiliated company	–	(45,850)
	–	302,323
Less: Minority interests	–	(103,395)
	–	198,928
Distribution in specie	–	87,042
Other reserve arising from distribution	–	(12,314)
Interest in CFSG	–	124,200
	–	198,928
NET CASH OUTFLOW ARISING ON DISPOSAL		
Bank balances disposed of	–	(336,253)

The subsidiary disposed of during the year ended 31 December 2000 utilised approximately HK\$71 million of the Group's net operating cash flows, contributed approximately HK\$219 million in respect of financing activities and utilised approximately HK\$26 million for investing activities. The results of CFSG attributable to the Group were disclosed in the consolidated income statement for the year ended 31 December 2000.

35. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS DISPOSED OF		
Investments	20,651	—
Accounts payable	(28)	—
Loss on disposal	20,623 (1,023)	— —
Total consideration	19,600	—
SATISFIED BY		
Cash	19,600	—
NET CASH INFLOW ARISING ON DISPOSAL		
Cash	19,600	—

The subsidiaries sold during the year contributed HK\$30,248,000 to the Group's net operating cash outflow.

The subsidiaries disposed of during the year contributed HK\$28,803,000 to the Group's loss from operations.

36. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	142,370	48,324
Prepayments, deposits and other receivables	33,807	16,562
Inventories	52,637	–
Taxation recoverable	125	–
Bank balances and cash	68,538	265,255
Pledged bank deposits	8,500	–
Accounts payable	(107,820)	–
Accrued liabilities and other payables	(21,989)	(58,354)
Bank borrowings	(42,120)	–
Minority interests	(28,666)	(124,405)
	105,382	147,382
Interests in associates	–	(70,760)
Goodwill on consolidation	100,596	423,702
	205,978	500,324
SATISFIED BY		
Shares allotted	152,345	277,888
Cash	53,633	222,436
	205,978	500,324
NET CASH INFLOW (OUTFLOW) ARISING ON ACQUISITION		
Cash consideration	(53,633)	(222,436)
Bank balances and cash acquired	26,418	265,255
	(27,215)	42,819

The subsidiary acquired contributed HK\$749 million revenue and HK\$15 million of profit before taxation for the period between the date of acquisition and the balance sheet date.

During the period since acquisitions, the subsidiaries acquired have contributed approximately HK\$40 million (2000: utilised HK\$28 million) to the Group's net operating cash flows, contributed approximately HK\$157 million (2000: utilised HK\$9 million) in respect of financing activities and utilised approximately HK\$91 million (2000: HK\$26 million) for investing activities.

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEARS

	Share capital and share premium HK\$'000	Other reserve HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000	Pledged bank deposits HK\$'000
At 1 January 2000	1,266,444	–	4,037	54,375	(30,000)
Net cash inflow (outflow) from financing	142,861	–	(1,926)	–	–
Issue of shares for acquisition of additional interest in a subsidiary	277,888	–	–	–	–
Reduction of share premium transferred to distributed surplus	(398,582)	–	–	–	–
Reduction of share premium transferred to accumulated losses	(500,000)	–	–	–	–
Issue of warrants	–	59,573	–	–	–
Arising on distribution	–	12,314	–	–	–
Increase in minority interests upon deemed partial disposal of interests in certain subsidiaries	–	–	–	84,222	–
Increase in minority interests upon acquisition of subsidiaries	–	–	–	124,405	–
Decrease in minority interests upon distribution of shares in CFSG	–	–	–	(103,395)	–
Share of net loss	–	–	–	(39,665)	–
Inception of finance lease contracts	–	–	1,662	–	–
Proceeds received from uplifting of pledged bank deposits	–	–	–	–	30,000
Bank deposits pledged	–	–	–	–	(28,137)
At 31 December 2000 and at 1 January 2001	788,611	71,887	3,773	119,942	(28,137)
Net cash outflow from financing	–	–	(2,256)	–	–
Issue of shares for acquisition of interest in a subsidiary	151,529	–	–	–	–
Share repurchase	(6,670)	–	–	–	–
Increase in minority interests upon acquisition of subsidiaries	–	–	–	28,666	–
Increase in minority interests upon deemed partial disposal of interests in certain subsidiaries	–	–	–	73,490	–
Share of net loss	–	–	–	(27,188)	–
Inception of finance lease contracts	–	–	1,220	–	–
Acquired on acquisition of subsidiaries	–	–	–	–	(8,500)
Proceeds received from uplifting of pledged bank deposits	–	–	–	–	27,133
Bank deposits pledged	–	–	–	–	(34,241)
At 31 December 2001	933,470	71,887	2,737	194,910	(43,745)

38. MAJOR NON-CASH TRANSACTIONS

During the year, the Company acquired 435,132,000 shares of HK\$0.10 each in Pricerite at a consideration of approximately HK\$152,296,200. The consideration was satisfied by the issue and allotment of 507,654,000 shares of the Company. During the period of the general offers made by the Company, the Company acquired 141,090 shares of HK\$0.10 each in Pricerite by issue of 164,605 shares in the Company.

During the year, the Group entered into finance lease in respect of assets with a total capital value at the reception of the finance leases of approximately HK\$1,220,000.

During the year ended 31 December 2000, the Company acquired a 8.7% interest in CFSG at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 shares of the Company.

During the year ended 31 December 2000, the Company distributed 498,123,127 shares of CFSG to the shareholders of the Company by way of distribution in specie, effect of which are set out in note 34 to the financial statements.

39. CONTINGENT LIABILITIES

THE GROUP

- (a) At 31 December 2001, the Group has given a guarantee to a bank in respect of general facilities granted to an associate. The extent of such facilities utilised by the associate at 31 December 2001 amounted to approximately HK\$18,450,000 (2000: nil).
- (b) A subsidiary has been named as a defendant in a court action in respect of the amount of goods supplied to the subsidiary and the interest on the said amount. The subsidiary is resisting the claim by filing a counterclaim on losses arising from unfulfilled delivery of products and delivery of defective products.

No provision for any potential liability has been made in these financial statements as in the opinion of the Directors, the potential liability is not significant.

- (c) At 31 December 2001, there were 89 (2000: nil) employees who had completed the required number of years of service under the Employment Ordinance of Hong Kong to be eligible for long-service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance. If the termination of all these employees' employment met the circumstances required by the Employment Ordinance, the Group's liability at 31 December 2001 would be approximately HK\$5,844,000 (2000: nil) for which a HK\$585,000 (2000: nil) provision has been made in the financial statements.

THE COMPANY

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2001 amounted to approximately HK\$55,774,000 (2000: HK\$121,362,000).

40. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	94,529	29,757	8,155	15,559
In the second to fifth year inclusive	157,615	16,547	2,269	10,051
After five years	10,527	–	–	–
	262,671	46,304	10,424	25,610

Operating lease payments represent rentals payable by the Group for its office premises and retail shops. Leases are mainly negotiated for an average term of six years and rentals are fixed for an average of three years. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percent of the gross sales of the relevant shop.

41. OTHER COMMITMENTS**(a) Capital commitments**

At the balance sheet date, the Group and had the following capital commitments:

	2001 HK\$'000	2000 HK\$'000
Capital expenditure commitment in respect of the acquisition of property and equipment contracted for but not provided in the financial statements	8,000	–

(b) Other commitments

At the balance sheet date, the Group had the following other commitments:

	2001 HK\$'000	2000 HK\$'000
Contracted commitment in respect of advertising expenditure	7,398	3,220
Undrawn loan commitment to a borrower	–	8,000
	7,398	11,220

(c) Futures

At the balance sheet date, the Group had an outstanding currency futures under which the Group agreed to sell 48,615,500 Japanese Yen (equivalent to HK\$2,972,000) for United States dollars at the strike price of 127.57 Japanese Yen against one United States dollar.

42. RELATED PARTY TRANSACTIONS

During the year, the Group had the following related party transactions:

- (a) The Company acquired 320,000,000 shares of HK\$0.10 each in Pricerite from Miliway at a consideration of HK\$112,000,000 pursuant to the agreement entered into between the parties dated 9 February 2001. The consideration was settled by the issue and allotment of 373,333,333 shares of HK\$0.10 each in the Company. Miliway is ultimately wholly-owned by a discretionary trust established for the benefits of the family members of Kwan Pak Hoo Bankee.
- (b) The Group pledged bank deposits of HK\$34,000,000 (2000: HK\$27,260,000) to secure general banking facilities granted to an associate by a bank, for which no charge is made. At the balance sheet date, the associate had utilised HK\$18,450,000 of these banking facilities.
- (c) The Group received interest of approximately HK\$1,942,000 (2000: 1,316,000) from Suffolk, in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. The interest was calculated at commercial rates which were similar to the rates offered to other margin clients.
- (d) During the year ended 31 December 2000, pursuant to the placing agreement entered into between the Company and Cash Guardian, the Company issued a total of 479 million of shares at a total consideration of approximately HK\$144 million to Cash Guardian.
- (e) During the year ended 31 December 2000, the Group acquired a 8.7% interest in CFSG from Cash Guardian at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 shares of the Company.

43. POST BALANCE SHEET DATE EVENT

On 15 March 2002, the Directors proposed to consolidate 20 existing shares of HK\$0.10 each in the Company into 1 consolidated share of HK\$2.00 each and to reduce the share capital of a consolidated share of HK\$2.00 each to a reduced share of HK\$0.10 each. The total amount of reduced share capital of approximately HK\$607,464,000 resulted from the capital reduction will be credited to the contributed surplus account. The proposed share consolidation of every 20 issued or unissued existing shares of HK\$0.10 each into 1 consolidated share of HK\$2.00 each and the proposed capital reduction of a consolidated share of HK\$2.00 each into a reduced share of HK\$0.10 each are subject to the shareholders' approval in a special general meeting to be held.