

1. CORPORATE INFORMATION

The registered office of Oriental Explorer Holdings Limited is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the following principal activities:

- manufacture and trading of steel; and
- manufacture and trading of electronic products

During the year, the Group deconsolidated its two operating subsidiaries in the People's Republic of China (the "PRC") which engaged in the manufacture of steel products in prior years, thereby discontinuing this line of business, as further detailed in note 16 to the financial statements.

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

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- | | | |
|---------------------|---|--|
| • SSAP 9 (Revised) | : | "Events after the balance sheet date" |
| • SSAP 14 (Revised) | : | "Leases" |
| • SSAP 18 (Revised) | : | "Revenue" |
| • 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 investments in subsidiaries" |
| • Interpretation 12 | : | "Business combinations - subsequent adjustment of fair values and goodwill initially reported" |
| • Interpretation 13 | : | "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves" |

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. The revised SSAP has not had material effect on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on these financial statements.

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

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of revisions to SSAP 9. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The revised SSAP 18 has not had a material effect on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The SSAP has not had material effect on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The SSAP has not had material effect on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. The SSAP has had no material effect on these financial statements.

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

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

In addition to the above new and revised SSAPs, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10 : "Accounting for investments in associates"
- SSAP 17 : "Property, plant and equipment"
- SSAP 21 : "Accounting for interests in joint ventures"

The revisions to these SSAPs have had no material impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Certain subsidiaries previously consolidated by the Group in prior years were deconsolidated during the year as in the opinion of the directors, the Group is no longer able to exercise control or significant influence over the subsidiaries. For further details, please refer to note 16 to the financial statements.

Subsidiaries

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

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

Associates

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

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

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Related parties

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

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% or over the lease terms, if shorter
Leasehold land	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33-1/3%
Motor vehicles	20% - 25%
Vessels	30%
Freehold land is not depreciated.	

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investments

Investments in securities held for long term strategic purposes are stated in the balance sheet at cost less any provisions for impairment in values other than those considered to be temporary in nature, deemed necessary by the directors.

The carrying amounts of such securities are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised in the profit and loss account.

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

Profits and losses on disposal of investments in securities are accounted for in the profit and loss account as they arise.

Inventories

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

Cash equivalents

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

Provisions

A provision is recognised when a present legal or constructive obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) dividend income, when the shareholders' right to receive payment has been established; and
- (d) proceeds from the disposal of listed investments, when the relevant sale contract is entered into.

Retirement benefits scheme

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

Foreign currencies

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

On consolidation, the financial statements of foreign subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the steel trading segment is a supplier of steel products mainly for use in construction;

4. SEGMENT INFORMATION (continued)

- (b) the steel manufacturing segment manufactured steel products for use in construction (these activities were discontinued during the year, as detailed in note 16 to the financial statements);
- (c) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and
- (d) the Corporate and other segment includes investment holding and other businesses.

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

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

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Steel trading		Steel manufacturing		Electronic products		Corporate and other		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Sales to external customers	485,644	628,603	216,171	628,882	19,178	23,101	—	—	720,993	1,280,586
Segment results	2,538	8,988	(32,816)	(105,092)	3,138	1,839	36,886	(39,303)	9,746	(133,568)
Profit/(loss) from operating activities:										
Continuing operations									42,562	(28,476)
Discontinued operations									(32,816)	(105,092)
									9,746	(133,568)
Finance costs									(5,015)	(11,819)
Share of loss of an associate									(145)	(153)
Profit/(loss) before tax									4,586	(145,540)
Tax									6,816	6,084
Profit/(loss) before minority interests									11,402	(139,456)
Minority interests									17,534	34,875
Net profit/(loss) from ordinary activities attributable to shareholders									28,936	(104,581)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Steel trading		Steel manufacturing		Electronic products		Corporate and Other		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment assets	169,052	104,319	—	358,335	21,081	20,579	191,136	163,545	(1,667)	(83,753)	379,602	563,025
Interest in an associate	—	—	—	—	—	—	242	387	—	—	242	387
Total assets	169,052	104,319	—	358,335	21,081	20,579	191,378	163,932	(1,667)	(83,753)	379,844	563,412
Total liabilities	115,444	57,564	—	345,769	4,794	8,387	8,329	3,696	(1,667)	(83,753)	126,900	331,663
Other segment information:												
Gain on deconsolidation of subsidiaries	—	—	—	—	—	—	28,762	—	—	—	28,762	—
Depreciation	1	9	9,325	24,196	645	1,312	1,537	675	—	—	11,508	26,192
Other non-cash expenses	864	—	—	27,817	—	—	—	40,787	—	—	864	68,604
Capital expenditure	—	—	—	14,287	284	599	27,139	7,370	—	—	27,423	22,256

(b) Geographical segments

The following table presents revenue, certain asset and liability information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Thailand		Corporate and Other		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:												
Sales to external customers	4,859	7,531	229,576	643,006	485,644	623,973	914	6,076	—	—	720,993	1,280,586
Segment results	32,348	(43,796)	(31,337)	(104,158)	8,588	13,917	147	469	—	—	9,746	(133,568)
Other segment information:												
Segment assets	169,284	154,307	104,852	424,669	95,649	35,565	10,059	—	—	(51,129)	379,844	563,412
Segment liabilities	(10,916)	(17,101)	(1,902)	(346,365)	(18,291)	(2,950)	(95,791)	(16,376)	—	51,129	(126,900)	(331,663)
Capital expenditure	5,154	1,174	22,269	21,082	—	—	—	—	—	—	27,423	22,256

5. TURNOVER, REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gains is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover:		
Continuing operations	504,822	651,704
Discontinued operations	216,171	628,882
	<u>720,993</u>	<u>1,280,586</u>
Other revenue and gains:		
Interest income	4,164	7,298
Gain on disposal of listed investments	6,556	4,042
Gain on disposal of an unconsolidated subsidiary	—	3,660
Gain on disposal of fixed assets	34	—
Dividend income from listed investments	2,302	1,896
Dividend income from unlisted investments	—	593
Sales of scrap and raw materials	7,672	14,827
	<u>20,728</u>	<u>32,316</u>
	<u>741,721</u>	<u>1,312,902</u>

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold *	719,923	1,277,864
Depreciation of fixed assets	11,508	26,192
Minimum lease payments under operating leases for land and buildings	2,604	4,741
Auditors' remuneration:		
Current year's provision	500	683
Prior year's under provision	—	120
Staff costs (including directors' remuneration - note 8)	12,285	24,547
Exchange losses/(gains), net	(526)	117
Other operating expenses/(gains):		
Provision for doubtful debts	—	5,318
Unrealised losses/(gains) on listed investments, net	(4,367)	40,787
Loss on scrapping fixed assets	—	22,632
Loss on subcontracting services	—	8,718
	<u>(4,367)</u>	<u>77,455</u>

* Cost of inventories sold includes depreciation of approximately HK\$6,525,000 (2000: HK\$13,096,000) and staff costs of HK\$3,220,000 (2000: HK\$14,472,000), which are also included in the respective total amounts as disclosed above for each of these types of expenses.

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,495	9,558
Interest on discounted bills	1,520	2,261
	<u>5,015</u>	<u>11,819</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	120	120
Other emoluments	2,770	2,770
	<u>2,890</u>	<u>2,890</u>

Fees include HK\$120,000 (2000: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	—
	<u>6</u>	<u>6</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: two) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2000: three) non-directors, highest paid employees are as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	936	2,085

The remuneration of each of these two highest paid employees fell within the band of Nil-HK\$1,000,000.

10. TAX

	2001 HK\$'000	2000 HK\$'000
Group:		
Hong Kong and the PRC		
Provision for the year	650	—
Overprovision in prior years	(7,466)	(6,084)
Elsewhere	—	—
	<u> </u>	<u> </u>
Tax credit for the year	<u>(6,816)</u>	<u>(6,084)</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

No provision for overseas tax has been made in respect of the subsidiaries in the PRC nor for other overseas subsidiaries as these subsidiaries had no assessable profits. No provision for income tax has been made in respect of an associate as this company had no assessable income during the year.

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (2000: Nil).

The amount of the unprovided deferred tax asset of the Group is as follows:

	2001 HK\$'000	2000 HK\$'000
Tax losses carried forward	<u>(2,989)</u>	<u>(2,989)</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company, amounted to HK\$3,852,000 (2000: HK\$144,230,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$28,936,000 (2000: net loss of HK\$104,581,000), and the weighted average number of 1,467,739,726 ordinary shares (2000: 1,274,399,541) ordinary shares in issue during the year.

Diluted earnings/(loss) per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option scheme, is not presented because the impact of the share options was anti-dilutive during both of the years ended 31 December 2000 and 2001.

13. FIXED ASSETS

Group

	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At beginning of year	105,524	2,740	188,797	5,964	3,248	—	306,273
Additions	—	117	280	14	162	4,863	5,436
Deconsolidation of subsidiaries							
- note 16	(104,209)	—	(151,313)	(326)	(1,900)	—	(257,748)
Disposals	—	—	—	(463)	(205)	—	(668)
At 31 December 2001	<u>1,315</u>	<u>2,857</u>	<u>37,764</u>	<u>5,189</u>	<u>1,305</u>	<u>4,863</u>	<u>53,293</u>
Accumulated depreciation:							
At beginning of year	30,759	2,518	133,332	5,324	2,455	—	174,388
Provided during the year	2,854	329	6,874	293	186	972	11,508
Deconsolidation of subsidiaries							
- note 16	(33,219)	—	(103,708)	(290)	(1,900)	—	(139,117)
Disposals	—	—	—	(463)	(79)	—	(542)
At 31 December 2001	<u>394</u>	<u>2,847</u>	<u>36,498</u>	<u>4,864</u>	<u>662</u>	<u>972</u>	<u>46,237</u>
Net book value:							
At 31 December 2001	<u>921</u>	<u>10</u>	<u>1,266</u>	<u>325</u>	<u>643</u>	<u>3,891</u>	<u>7,056</u>
At 31 December 2000	<u>74,765</u>	<u>222</u>	<u>55,465</u>	<u>640</u>	<u>793</u>	<u>—</u>	<u>131,885</u>

All of the fixed assets are held by the Company's subsidiaries.

13. FIXED ASSETS *(continued)*

An analysis of the cost of the land and buildings of the Group at the balance sheet date, all of which are located outside Hong Kong, is as follows:

	2001 HK\$'000	2000 HK\$'000
Freehold property	—	—
Long term leasehold property	1,315	1,315
Medium term leasehold property	—	104,209
	1,315	105,524

At the balance sheet date, certain land and buildings were pledged to secure a bank loan of HK\$84,000 (2000: HK\$167,000), as set out in note 23 to the financial statements.

14. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	136,380	136,380
Provision for impairment	(88,480)	(88,480)
	47,900	47,900
Due from subsidiaries	554,973	540,867
Provision against amounts due from subsidiaries	(379,990)	(379,990)
	174,983	160,877
	222,883	208,777

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

14. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful (Holdings) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$20,000,000	—	100	Investment holding
Linkful Material Supply Limited	Hong Kong	HK\$1,000,000	—	100	Metal trading
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	US\$1	—	100	Metal trading
Linkful Worldwide (Holdings) Limited	British Virgin Islands	US\$100	100	—	Investment holding
Linkful Worldwide Investment Limited	British Virgin Islands	US\$1	—	100	Investment holding
Linkful (PRC) Investments Limited	Hong Kong	HK\$2	—	100	Investment holding
Linkful Investment (Holdings) Limited	British Virgin Islands	US\$1	100	—	Investment holding
Katarti Navigation Company Limited	Cyprus	C£100	—	100	Vessel holding
Linkful Management Consultancy Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Management Services Limited	Hong Kong	HK\$2	—	100	Provision of management services

14. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful Secretarial Services Limited	Hong Kong	HK\$10,000	—	100	Provision of consultancy services
Linkful Strategic Investment Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Properties Company Limited	Hong Kong	HK\$2	—	100	Property holding
Linkful (PRC) Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Inter China Limited	British Virgin Islands	US\$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US\$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK\$6,000,000	—	75	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd.	People's Republic of China	US\$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US\$1	—	100	Investment holding

Jiangyin Bofeng Steel Company Limited and Wuxi Xifeng Iron & Steel Company Limited, which were included in the Company's list of subsidiaries as at 31 December 2000, have been deconsolidated during the year, as detailed in note 16 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. INTEREST IN AN ASSOCIATE

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net liabilities	(428)	(283)
Loan to an associate	670	670
	<hr/>	<hr/>
	242	387
	<hr/>	<hr/>

The loan to the associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate at the balance sheet date were as follows:

Company	Business structure	Place of incorporation	Percentage of equity interest attributable to the Group		Principal activity
			2001	2000	
Prince Properties Limited	Corporate	Hong Kong	50	37.5	Investment holding

The shareholding in the associate's equity shares is held through a wholly-owned subsidiary.

16. INTERESTS IN DECONSOLIDATED SUBSIDIARIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	—	—
Advances receivable	21,646	—
	<u>21,646</u>	<u>—</u>

Particulars of deconsolidated subsidiaries at the balance sheet date were as follows:

Company	Place of registration and principal operations	Registered capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangyin Bofeng Steel Company Limited ("Jiangyin Bofeng")	People's Republic of China	US\$16,800,000	51.3	Manufacture and sale of steel products
Wuxi Xifeng Iron & Steel Company Limited ("Wuxi Xifeng")	People's Republic of China	US\$9,000,000	51	Manufacture and sale of steel products

- (a) On 23 August 2001, the Group entered into an agreement with an independent third party for the disposal of the whole of its equity interest in Jiangyin Bofeng at a cash consideration of RMB6,000,000 payable on or before 30 June 2004. In the above agreement, the purchaser also agreed that Jiangyin Bofeng owed the Group RMB44,000,000, which is repayable by three instalments, the first two of which amounting to RMB40,000,000 had already been received by the Group in which RMB25,000,000 and RMB15,000,000 were received before and after 31 December 2001, respectively. The last instalment of RMB4,000,000 is due on 1 December 2003.

The Group ceased its control over the financial and operating policies of Jiangyin Bofeng since the date of signing of the above agreement.

- (b) Since the beginning of the year, the Chinese joint venture partner ("JV Partner") of Wuxi Xifeng had by various means endeavoured to prevent the Group from exercising control over the financial and operating policies of Wuxi Xifeng and on 6 March 2001, the JV Partner applied for an arbitration to the China International Economic and Trade Arbitration Commission ("CIETAC") for the termination of the Wuxi Xifeng joint venture.

16. INTERESTS IN DECONSOLIDATED SUBSIDIARIES *(continued)*

On 12 December 2001, the Group, the JV Partner and two independent third parties entered into an agreement for the disposal of the whole of the Group's equity interest in Wuxi Xifeng for a cash consideration of RMB4,100,000. The contracting parties also agreed that Wuxi Xifeng owed the Group RMB12,700,000. The payment schedule is as follows:

	Cash consideration for disposal of equity interest	Settlement of advances	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Upon the delivery of the arbitration judgement by CIETAC	1,460,000	4,540,000	6,000,000
On or before 1 June 2002	1,460,000	4,540,000	6,000,000
On or before 1 December 2002	1,180,000	3,620,000	4,800,000
	<u>4,100,000</u>	<u>12,700,000</u>	<u>16,800,000</u>

On 24 December 2001, CIETAC handed down its arbitration judgement which basically followed the terms of the agreement entered into by the Group, the JV Partner and two independent parties as set out above.

On 27 December 2001, the Group received the first instalment of RMB6,000,000 for the part-settlement of part of the advances of RMB4,540,000 and the deposit paid for the disposal of the Group's equity interest in Wuxi Xifeng of RMB1,460,000. The RMB1,460,000 was recorded by the Group in the consolidated balance sheet under "Other payables" as at 31 December 2001.

Pursuant to the two agreements entered into by the Group, the Chinese joint venture partners of Jiangyin Bofeng and Wuxi Xifeng and the respective purchasers, and due to the cessation of the Group's control over the financial and operating policies of Jiangyin Bofeng and Wuxi Xifeng, these two subsidiaries were accounted for as unconsolidated subsidiaries of the Group with effect from 1 July 2001 and 1 January 2001, respectively. The deconsolidation of Jiangyin Bofeng and Wuxi Xifeng resulted in a gain on deconsolidation of HK\$28,762,000, being the excess of the Group's share of the accumulated losses over the costs of its investments in Jiangyin Bofeng and Wuxi Xifeng.

The net losses before and after minority interests of the deconsolidated subsidiaries accounted for in the current year's consolidated profit and loss account amounted to HK\$36,289,000 and HK\$18,755,000, respectively (2000: Losses of HK\$114,076,000 and HK\$79,201,000, respectively).

16. INTERESTS IN DECONSOLIDATED SUBSIDIARIES *(continued)*

The Group's share of net liabilities in Jiangyin Bofeng and Wuxi Xifeng at the date of deconsolidation are set out below:

	HK\$'000
Fixed assets	118,631
Inventories	76,268
Trade and bills receivables	54,267
Prepayments, deposits and other receivables	31,644
Cash and cash equivalents	40,516
Trade and bills payables and other payables	(323,739)
Interest-bearing bank loans	(21,310)
	<hr/>
Net liabilities of the unconsolidated subsidiaries as at the dates of deconsolidation	(23,723)
Exchange fluctuation reserve released upon deconsolidation of subsidiaries	(5,039)
	<hr/>
Net gain arising from deconsolidation of subsidiaries	(28,762)
	<hr/>

17. INVESTMENTS

Long term investments:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	73,744	51,757	330	330
Provisions for impairment	(10,007)	(10,007)	—	—
	<u>63,737</u>	<u>41,750</u>	<u>330</u>	<u>330</u>
Listed investments in Hong Kong, at market value	<u>120</u>	<u>74</u>	<u>—</u>	<u>—</u>
Total long term investments	<u>63,857</u>	<u>41,824</u>	<u>330</u>	<u>330</u>

Short term investments:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>67,505</u>	<u>24,959</u>	<u>2,009</u>	<u>4,778</u>

18. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	2,125	62,984
Work in progress	26	3,127
Finished goods	<u>556</u>	<u>39,877</u>
	<u>2,707</u>	<u>105,988</u>

As at 31 December 2001, no inventories were carried at net realisable value or pledged as security for any liabilities of the Group (2000: Nil).

19. TRADE AND BILLS RECEIVABLES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade receivables	97,617	85,246
Less: Provision for doubtful debts	(124)	(11,805)
	<u>97,493</u>	<u>73,441</u>
Bills receivables	—	12,153
	<u>97,493</u>	<u>85,594</u>

An aged analysis of trade receivable is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Aged:		
Within three months	97,180	69,994
Within four to six months	—	2,089
Within seven months to one year	313	1,358
	<u>97,493</u>	<u>73,441</u>

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of bills receivable is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Aged:		
Within three months	—	7,303
Within four to six months	—	4,850
	<u>—</u>	<u>12,153</u>

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash and bank balances	48,145	90,264	2	2
Time deposits	45,666	30,716	—	—
Pledged deposits	7,800	4,890	—	—
	<u>101,611</u>	<u>125,870</u>	<u>2</u>	<u>2</u>

Certain time deposits of HK\$7,800,000 (2000: HK\$4,890,000) were pledged as security for banking facilities granted.

21. TRADE AND BILLS PAYABLES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade payables	62,666	36,965
Bills payables	33,149	—
	<u>95,815</u>	<u>36,965</u>

An aged analysis of trade payables is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Aged:		
Within three months	62,176	34,548
Within four to six months	—	477
Within seven months to one year	490	496
Over one year	—	1,444
	<u>62,666</u>	<u>36,965</u>

An aged analysis of bills payables is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Aged:		
Within three months	33,149	—

22. OTHER PAYABLES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Accruals and other liabilities	26,935	75,178
Due to minority shareholders	833	187,994
	<u>27,768</u>	<u>263,172</u>

The amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

23. INTEREST-BEARING BANK LOANS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loans:		
Secured	84	167
Unsecured	—	21,310
	<u>84</u>	<u>21,477</u>
Bank loans repayable:		
Within one year	84	21,393
In the second year	—	84
	<u>84</u>	<u>21,477</u>

The Group's secured loan of HK\$84,000 (2000: HK\$167,000) is secured by certain of the Group's land and buildings (see note 13).

24. SHARE CAPITAL

Shares

	2001 HK\$'000	2000 HK\$'000
Authorised:		
20,000,000,000 (2000: 20,000,000,000) ordinary shares of HK\$0.01 (2000: HK\$0.01) each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
1,565,000,000 (2000:1,315,000,000) ordinary shares of HK\$0.01 (2000: HK\$0.01) each	<u>15,650</u>	<u>13,150</u>

2000

Pursuant to a special resolution of shareholders on 14 February 2000, the nominal value of the Company's issued and unissued shares was reduced from HK\$0.10 per share to HK\$0.01 per share. The authorised capital of HK\$200,000,000, divided into 2,000,000,000 shares of HK\$0.10 per share, was reduced to HK\$20,000,000 divided into 2,000,000,000 shares of HK\$0.01 each. Thereafter, the authorised share capital of the Company was increased to HK\$200,000,000 by the creation of an additional 18,000,000,000 additional shares of HK\$0.01 each. The issued capital of HK\$109,653,600 was reduced by HK\$98,688,240 to HK\$10,965,360 as a result of the change in par value of the shares in issue. The credit of HK\$98,688,240 arising from the reduction of issue capital was eliminated against the accumulated losses of the Company.

Pursuant to a directors' resolution passed in a meeting on 19 February 2000, the Company placed 218,464,000 shares of HK\$0.01 each at HK\$0.28 per share for an aggregate cash consideration of approximately HK\$61,170,000, less share issue expenses of HK\$1,824,000.

2001

Pursuant to a directors' resolution passed in a meeting on 8 May 2001, the Company placed 250,000,000 shares of HK\$0.01 each at HK\$0.06 per share for an aggregate cash consideration of approximately HK\$15,000,000, less share issue expenses of HK\$168,380.

24. SHARE CAPITAL *(continued)*

The movements in the issued share capital during the year were as follows:

	Number of shares	Par value HK\$	Total HK\$'000
At 1 January 2000	1,096,536,000	0.10	109,654
Capital reduction arising from change of par value from HK\$0.10 per share to HK\$0.01 per share	—	—	(98,688)
New issue on 19 February 2000	218,464,000	0.01	2,184
At 31 December 2000 and 1 January 2001	1,315,000,000	0.01	13,150
New issue on 22 May 2001	250,000,000	0.01	2,500
	<u>1,565,000,000</u>	0.01	<u>15,650</u>

Share options

On 8 March 1993, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the Scheme, grant to directors and employees of the Group options to subscribe for shares of the Company.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares of the Company within 10 years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. Further details of the Scheme and the share options granted are set out under the heading "Share option scheme" in the Report of the Directors on pages 9 and 10.

No share options were granted, exercised, cancelled or lapsed during the year. At the balance sheet date, the Company had 58,500,000 share options outstanding under the Scheme, with an exercise period within 10 years from the date of grant, at a subscription price of HK\$0.112 per share. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares and in cash proceeds, before share issue expenses, to the Company of HK\$6,552,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2001

25. RESERVES

Group	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	341,013	546	—	5,105	(196,868)	149,796
Arising on allotment of share capital	58,986	—	—	—	—	58,986
Share issue expenses	(1,824)	—	—	—	—	(1,824)
Arising from capital reduction	—	—	—	—	98,688	98,688
Loss for the year	—	—	—	—	(104,581)	(104,581)
At 31 December 2000 and 1 January 2001	398,175	546	—	5,105	(202,761)	201,065
Arising on allotment of share capital	12,500	—	—	—	—	12,500
Share issue expenses	(168)	—	—	—	—	(168)
Released upon deconsolidation of subsidiaries	—	—	—	(5,039)	—	(5,039)
Profit for the year	—	—	—	—	28,936	28,936
At 31 December 2001	410,507	546	—	66	(173,825)	237,294
Company						
At 1 January 2000	341,013	546	88,380	—	(240,807)	189,132
Arising on allotment of share capital	58,986	—	—	—	—	58,986
Share issue expenses	(1,824)	—	—	—	—	(1,824)
Arising from capital reduction	—	—	—	—	98,688	98,688
Loss for the year	—	—	—	—	(144,230)	(144,230)
At 31 December 2000 and 1 January 2001	398,175	546	88,380	—	(286,349)	200,752
Arising on allotment of share capital	12,500	—	—	—	—	12,500
Share issue expenses	(168)	—	—	—	—	(168)
Loss for the year	—	—	—	—	(3,852)	(3,852)
At 31 December 2001	410,507	546	88,380	—	(290,201)	209,232

25. RESERVES (continued)

The Group's accumulated losses are retained in the Group as follows:

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries	173,424	202,505
Associate	401	256
	<hr/> 173,825 <hr/>	<hr/> 202,761 <hr/>

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	9,746	(133,568)
Gains on disposal of listed investments	(6,556)	(4,042)
Unrealised loss/(gain) on listed investments	(4,367)	40,787
Gain on disposal of an unconsolidated subsidiary	—	(3,660)
Gain on deconsolidation of subsidiaries	(28,762)	—
Loss/(gain) on disposal of fixed assets	(34)	22,632
Depreciation	11,508	26,192
Dividend income	(2,302)	(2,489)
Interest income	(4,164)	(7,298)
Increase in interests in unconsolidated subsidiaries	(21,646)	—
Decrease/(increase) in inventories	27,013	(5,929)
Decrease/(increase) in trade and bills receivables	(66,166)	56,832
Decrease/(increase) in prepayments, deposits and other receivables	(2,466)	28,871
Increase/(decrease) in trade and bills payables	218,364	(122,326)
Increase/(decrease) in other payables	(71,179)	105,545
	<hr/> 58,989 <hr/>	<hr/> 1,547 <hr/>
Net cash inflow from operating activities	58,989	1,547

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

(b) Analysis of changes in financing during the year

	Issued capital and share premium account	Bank loans	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2000	450,667	21,562	52,409
Shares issued for cash	61,170	—	—
Share issue expenses	(1,824)	—	—
Arising from capital reduction	(98,688)	—	—
New loans raised	—	21,310	—
Repayment of loans	—	(21,395)	—
Share of loss after tax of subsidiaries	—	—	(34,875)
	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	411,325	21,477	17,534
Shares issued for cash	15,000	—	—
Share issue expenses	(168)	—	—
Released upon deconsolidation of subsidiaries	—	(21,310)	—
Repayment of loans	—	(83)	—
Share of loss after tax of subsidiaries	—	—	(17,534)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>426,157</u>	<u>84</u>	<u>—</u>

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

- (a) The Group received rental income in the amount of HK\$115,000 (2000: HK\$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group.
- (b) The Group paid rental expenses in the amount of HK\$1,800,000 (2000: HK\$1,800,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited ("MIHL"), a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the office rental were on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rents.

The independent non-executive directors of the Company have reviewed the details of the tenancy and confirmed that the transaction has been entered into on normal commercial terms that are fair and reasonable so far as the shareholders of the Company are concerned.

- (c) The Group paid management fees in the amount of HK\$960,000 (2000: HK\$960,000) to Multifield (Holdings) Limited, a wholly-owned subsidiary of MIHL for accountancy services provided during the year. The management fees were based on the direct costs incurred.
- (d) A subsidiary sold finished goods of HK\$3,339,000 (2000: HK\$4,841,000) to and purchased equipment parts of HK\$115,000 (2000: HK\$642,593) from Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), or offered by Alpha Japan to its third party customers (in respect of the purchases).

28. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2000: Nil).

29. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments at the balance sheet date (2000: Nil).

30. CONTINGENT LIABILITIES

As at 31 December 2001, the amount of guarantees given to banks in connection with facilities granted to subsidiaries by the Company was HK\$320,000,000 (2000: HK\$320,000,000).

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2002.