

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

South China Holdings Limited ("the Company") is incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory and underwriting services, information and technology related businesses, implementation and marketing of software applications, real estate investment and development, publishing and printing businesses, marketing and promotional services, sale of air tickets and provision of other related travel services (see Notes 18 and 19 for details).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared on the historical cost basis, except for trading and non-trading listed investments, land and buildings and investment properties, which are carried at revalued amounts.

Principal accounting policies are summarised below:

a. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together "the Group"), together with the Group's share of post-acquisition profit/loss and reserves of its associates under the equity method of accounting. Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the date of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively. Significant intra-group transactions and balances have been eliminated on consolidation.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice

Effective 1 January 2001, the Group had adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

| | |
|--------------------|--|
| SSAP 9 (revised): | Events after the balance sheet date |
| SSAP 14 (revised): | Leases |
| SSAP 26: | Segment reporting |
| SSAP 28: | Provisions, contingent liabilities and contingent assets |
| SSAP 29: | Intangible assets |
| SSAP 30: | Business combinations |
| SSAP 31: | Impairment of assets |
| SSAP 32: | Consolidated financial statements and accounting for investments in subsidiaries |

The adoption of the above new/revised SSAPs had no significant impact on the Group's financial statements, other than as described below:

i. SSAP 9 (revised): Events after the balance sheet date

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of capital and reserves on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of \$22,783,000 in capital and reserves as at 31 December 2000, which represents the proposed dividend for the year ended 31 December 2000.

ii. SSAP 26: Segment reporting

Segment information of the Group has been disclosed in Note 41 to the financial statements.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice (Continued)

iii. SSAP 30: Business combinations

Prior to 1 January 2001, goodwill was eliminated against available reserves when it arose. With the adoption of SSAP 30, the Group has adopted the transitional provisions prescribed therein. Goodwill and negative goodwill, which arose prior to 1 January 2001 will continue to be held in reserves and no restatement has been made. However, any impairment arising on such goodwill is recognised in the income statement in accordance with the newly issued SSAP 31 "Impairment of assets". Goodwill arising after 1 January 2001 is capitalised as an asset and is amortised to the income statement on a straight-line basis over its estimated economic life. Goodwill is stated at cost less accumulated amortisation and any impairment loss. Negative goodwill arising after 1 January 2001 is presented as a deduction from assets in the same balance sheet classification as goodwill and is recognised in the income statement in accordance with the accounting policy set out in Note 2.c.

The Group has treated the recognition of such impairment losses as a change in accounting policy in accordance with SSAP 2 since the Group has not previously followed policies of recognising impairment losses in respect of goodwill written off against reserves. In this connection, the Group has performed an assessment of the fair value of goodwill that had previously been eliminated against reserves as at 1 January 2000 and 31 December 2000. The Group has thus retrospectively restated its previously reported results for assessment of goodwill arising from the acquisitions of subsidiaries and associates in prior years. In this connection, the consolidated retained profit at the beginning of the years ended 31 December 2000 and 2001 was reduced by approximately \$52,807,000 and \$79,235,000 respectively and the Group's loss attributable to shareholders for the year ended 31 December 2000 was increased by \$26,428,000.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice (Continued)

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 17 "Property, plant and equipment", SSAP 18 "Revenue" and SSAP 21 "Accounting for interests in joint ventures". The Directors consider that the consequential changes made to these SSAPs do not have a material impact on the financial statements of the Group. However, with the adoption of SSAP 18 "Revenue", dividends declared by investees after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as income in the income statement. This change in accounting policy has been applied retrospectively as a prior year adjustment in the Company's financial statements. In this connection, the Company's retained profit at the beginning of the years ended 31 December 2000 and 2001 was reduced by approximately \$24,201,000 and \$50,000,000, respectively and the Company's profit attributable to shareholders for the year ended 31 December 2000 was decreased by approximately \$25,799,000.

The 2000 comparative figures presented herein incorporate the effect of adjustments, where applicable, resulting from the adoption of the new SSAPs.

c. Goodwill/Negative goodwill

Goodwill arises where the fair value of the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill arising prior to 1 January 2001 is held in reserves (see Note 2.b.iii.). Goodwill arising after 1 January 2001 is recognised as an asset in the balance sheet and is amortised on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c. Goodwill/Negative goodwill (Continued)

Negative goodwill which arose prior to 1 January 2001 is held in reserves (see Note 2.b.iii). Negative goodwill is presented as a deduction from assets in the same balance sheet classification as goodwill. Negative goodwill is recognised in the income statement as follows:

- to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortisable assets.
- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

d. Subsidiaries

A subsidiary is a company over which the Group can exercise control, which is normally evidenced when the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

e. Associates

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

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Group's share of the post-acquisition results of the associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of the associates, amortisation of goodwill acquired and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f. Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contributions and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group is able to govern and control the financial and operating policies of the joint venture. If the Group can only exercise significant influence over the equity joint venture, such joint venture is accounted for as an associate.

g. Long-term investments

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

Long-term listed investments are stated at fair value, which is generally the market value, at the balance sheet date on an individual investment basis. Changes in fair value of those investments are recognised directly in the long-term investment revaluation reserve in the period in which the change occurs, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the income statement for the year.

Unlisted investments intended to be held on a long-term basis are stated at cost, less provision for impairment in value, as determined by the Directors, on an individual investment basis.

Income from long-term investments is accounted for to the extent of dividends received or receivable.

Upon disposal of long-term investments, any profit and loss, including any amount previously held in the long-term investment revaluation reserve in respect of those investments, is accounted for in the income statement.

h. Listed investments

Listed investments are equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in fair value are accounted for in the income statement.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or revalued amount less estimated residual value of each asset over its estimated useful life.

The orchard includes fruit trees, protective covers, water tank, ditches, roads and others. Cultivation costs during the development period of the orchard are capitalised as construction-in-progress. No depreciation is provided until the commencement of commercial production.

Other construction-in-progress represents factories and office buildings under construction and machinery and equipment pending installation. It is stated at cost, which includes the original cost of land, construction expenditures incurred, machinery and related installation costs, and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

The annual rates of depreciation of fixed assets are as follows:

| | |
|--------------------------------------|------------------------|
| Land | 2% to 4% (lease terms) |
| Buildings | 2% to 10% |
| Furniture and leasehold improvements | 10% to 25% |
| Machinery and equipment | 10% to 25% |
| Moulds and tools | 20% to 25% |
| Motor vehicles and vessels | 20% to 33.3% |
| Orchard | 6.7% |

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and period of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

The Group has taken advantage of the transitional provisions set out in paragraph 80 of SSAP 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, and discontinued revaluing land and buildings effective from 30 September 1995.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from the fixed assets revaluation reserve to retained profit.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Investment properties

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

k. Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited, are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful lives of ten years.

The Directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically, and make provision for any impairment in value where appropriate.

l. Other non-current assets

Other non-current assets held on a long term basis are stated at cost less any impairment loss where considered necessary by the Directors.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. Property under development

Property under development include interests in land and building under development which are intended for sale upon completion. Property under development is included in non-current assets and is stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income. Net realisable value is based on estimated selling price in the ordinary course of business as determined by the Directors with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing expenses.

No depreciation is provided on property under development.

n. Land pending development

Land pending development includes all land acquired pending a definite plan to be developed for sale or long-term investment. It is stated at cost less provision for any impairment in value. Land cost includes land premium cost, site clearance costs and other directly attributable costs of bringing the land to a condition suitable for development. When the intention is clear and development has commenced, land to be developed for sale will be classified as properties under development.

o. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is calculated based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p. Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building costs and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

q. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

r. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s. Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

- (i) Sales income - income from sales of merchandise, raw materials and toolings/ moulds is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) Service income - income from provision of system integration services is recognised when the related integration services are rendered. Income from rendering of financial corporate advisory and underwriting services is recognised based on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of financial services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (iii) Commission and brokerage income - income is accrued on all brokerage transactions on a trade date basis;
- (iv) Income from trading of securities, bullion and futures contracts - income from trading of securities, bullion and futures contracts is accrued on a trade date basis;
- (v) Dividend income from listed investments is recognised when the shareholders' right to receive payment has been established;
- (vi) Income from sale of properties - revenue from the sale of properties is recognised when a legally binding agreement has been executed with the profit recognised restricted to the amount of instalments received.

If a purchaser defaults in the payment of instalments and the Group exercises its right to terminate the sale, the revenue and the related profit previously recognised are reversed and the instalments received and forfeited are credited to the income statement;

- (vii) Income from publishing and printing business - income from sales of magazines is recognised when the magazines are delivered and title has passed. Advertising income is recognised when the advertisements are published;
- (viii) Rental income - rental income is recognised when rental become due and receivable;

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s. Revenue recognition (Continued)

- (ix) Management fees - management fees are recognised when the services are rendered; and
- (x) Interest income - interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

t. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rates, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

u. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

v. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

w. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of the asset at rates based on the actual cost of specific borrowings.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

x. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

y. Subsequent events

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

z. Segments

Business segments: for management purposes the Group is organised into 6 major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 41.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Those transfers are eliminated upon consolidation.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

aa. Cash equivalents

For the purpose of the consolidated statement of cash flows, 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.

ab. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

3. TURNOVER AND REVENUE

Analysis of turnover and revenue by principal activity is as follows:

| | 2001 | 2000 |
|--|------------------|-----------|
| | \$'000 | \$'000 |
| Trading and manufacturing unit | | |
| - sale of merchandise | 1,651,925 | 1,940,023 |
| Media unit | | |
| - publishing, printing and the provision of related services | 209,080 | 242,319 |
| Securities and financing unit | | |
| - securities and commodities brokerage | 59,441 | 144,454 |
| - securities, bullion and commodities trading | 9,643 | 53,027 |
| - interest income from margin financing and money lending operations | 55,638 | 63,139 |
| - income from rendering of financial services | 5,940 | 7,404 |
| | 130,662 | 268,024 |
| Information and technology unit | | |
| - information and technology related business | 108,950 | 59,915 |
| Property development and investment unit | | |
| - real estate development - sale of properties | 3,340 | 5,991 |
| - real estate investments - rental income | 5,067 | 3,632 |
| | 8,407 | 9,623 |
| Investment holding and others unit | | |
| - Miscellaneous | 24 | 1,432 |
| Total turnover | 2,109,048 | 2,521,336 |
| Sale of raw materials | 2,316 | 1,714 |
| Revenue from sales of tooling/moulds | 4,125 | 4,632 |
| Management fees from associates (see Note 40) | 5,850 | 5,300 |
| Management fees from a related company (see Note 40) | 1,434 | — |
| Interest income - other than that included in turnover | 15,524 | 13,650 |
| Others | 1,948 | 9,149 |
| Other revenue | 31,197 | 34,445 |
| Total revenue | 2,140,245 | 2,555,781 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

4. RESTRUCTURING COSTS

Restructuring costs represent the following costs incurred in connection with reorganisation of certain of the Group's operations:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Severance payment | 11,629 | — |
| Write-off of inventories | 3,824 | — |
| Other expenses related to closure of a factory | 2,277 | — |
| | 17,730 | — |

5. REALISATION OF WARRANT SUBSCRIPTION RESERVE OF A SUBSIDIARY

During the year ended 31 December 2000, South China Brokerage Company Limited (formerly known as South China Online Limited), a subsidiary issued certain warrants and recorded a warrant subscription reserve of approximately \$63,050,000. On 17 February 2001, these warrants remained unexercised and lapsed, accordingly, the warrant subscription reserve was realised as income in the income statement.

6. (LOSS) GAIN ON INVESTMENT IN ASSOCIATES

(Loss) Gain on investment in associates comprises:

| | 2001 \$'000 | 2000 \$'000 |
|---|-----------------|----------------|
| Gain on disposal of interests in an associate | 147 | 31,099 |
| Income arising from amortisation of negative goodwill | 686 | — |
| | 833 | 31,099 |
| Provision against advances to associates | (36,025) | — |
| | (35,192) | 31,099 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

7. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

| | 2001 | 2000 |
|---|------------------|-----------|
| | \$'000 | \$'000 |
| After charging: | | |
| Interest expense on | | |
| - bank overdrafts and loans wholly repayable within five years | 20,003 | 25,351 |
| - bank loans repayable beyond five years | 730 | 921 |
| - finance leases | 259 | 155 |
| - amount due to an associate | 283 | — |
| Cost of inventories sold (excluding provision for slow-moving and obsolete inventories) | 1,700,054 | 1,940,630 |
| Cost of financial services provided | 38,627 | 80,254 |
| Operating lease rentals in respect of rented premises | 26,998 | 29,217 |
| Depreciation | | |
| - owned assets | 77,010 | 80,562 |
| - assets held under finance leases | 629 | 2,077 |
| Amortisation of intangible assets | 162 | 135 |
| Provision for slow-moving and obsolete inventories | 22,359 | 14,511 |
| Net loss on disposal of fixed assets | 156 | 1,459 |
| Staff costs (including directors' emoluments) | 547,042 | 594,145 |
| Auditors' remuneration | 3,449 | 2,702 |
| Net exchange loss | 684 | 573 |
| After crediting: | | |
| Interest income from | | |
| - bank deposits | 8,572 | 4,931 |
| - advances to associates (Note 19) | 6,775 | 8,116 |
| - trade debtors | 177 | 603 |
| Dividend income from | | |
| - listed investments | 5,622 | 1,230 |
| - unlisted investments | — | 202 |
| Rental income, less outgoings | 5,067 | 3,632 |
| Management fees | 7,284 | 5,300 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

- a. Details of directors' emoluments are:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Fees for executive directors | 190 | 190 |
| Fees for non-executive directors | 190 | 162 |
| Other emoluments for executive directors | | |
| - Basic salaries and allowances | 8,600 | 10,239 |
| - Bonus * | — | 306 |
| - Contribution to pension scheme | 406 | 431 |
| Other emoluments for non-executive directors | — | — |
| | 9,386 | 11,328 |

* The executive directors are entitled to a discretionary bonus.

During the year, no directors waived any emoluments and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

| | 2001 | 2000 |
|-----------------------------|----------|----------|
| Executive directors | | |
| - \$1,000,001 - \$1,500,000 | 1 | — |
| - \$1,500,001 - \$2,000,000 | — | 1 |
| - \$2,500,001 - \$3,000,000 | 3 | 2 |
| - \$3,000,001 - \$3,500,000 | — | 1 |
| | 4 | 4 |
| Non-executive directors | | |
| - Nil to \$1,000,000 | 3 | 4 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

- b. During the year, the five highest-paid individuals included three (2000 - three) executive directors, details of whose remuneration are included in the disclosure in Note 8.a. The details of the emoluments of the remaining two (2000 - two) highest-paid non-director individuals are:

| | 2001 \$'000 | 2000 \$'000 |
|---------------------------------|----------------|----------------|
| Basic salaries and allowances | 4,970 | 5,178 |
| Bonus * | 4,465 | 1,910 |
| Contributions to pension scheme | 120 | 131 |
| | 9,555 | 7,219 |

* The non-director individuals are entitled to a discretionary bonus.

Analysis of emoluments paid to the aforementioned two (2000 - two) non-director individuals, by number of individuals and emolument ranges is as follows:

| | 2001 | 2000 |
|---------------------------|----------|----------|
| \$2,500,001 - \$3,000,000 | 1 | — |
| \$3,000,001 - \$3,500,000 | — | 1 |
| \$4,000,001 - \$4,500,000 | — | 1 |
| \$6,500,001 - \$7,000,000 | 1 | — |
| | 2 | 2 |

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

9. TAXATION

Taxation comprised:

| | 2001 \$'000 | 2000 \$'000 |
|---|----------------|----------------|
| Company and subsidiaries - | | |
| Provision for current taxation | | |
| - Hong Kong profits tax | | |
| - current year | 2,939 | 6,474 |
| - under-provision for prior years (a) | 32,602 | — |
| - Overseas income tax | 750 | 1,328 |
| (Write-back of) Provision for deferred taxation | (12) | 89 |
| | 36,279 | 7,891 |
| Associates - | | |
| Provision for current taxation | | |
| - Hong Kong profits tax | 309 | — |
| Write-back of deferred taxation | — | (175) |
| | 309 | (175) |
| | 36,588 | 7,716 |

Hong Kong profits tax has been provided at the rate of 16% (2000 - 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries with overseas operations at tax rates applicable in the countries in which the subsidiaries operate.

Note:

- a. Wah Shing International Holdings Limited and its subsidiaries ("WSIHG") was subject to a field audit by the Hong Kong Inland Revenue Department ("HKIRD") on its transfer pricing policy in March 2001. WSIHG agreed with the HKIRD on a final settlement of approximately \$39,229,000 for additional charges in respect of the years of assessment 1994/1995 to 1999/2000, which was charged to taxation for the year ended 31 December 2001, net of \$6,627,000 already provided.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a profit of approximately \$50,202,000 (2000 - \$24,072,000) dealt with in the financial statements of the Company.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

11. DIVIDENDS

Dividends comprised:

| | 2001 | 2000 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Interim dividend declared of 0.10 cents (2000 - 1.25 cents**) per ordinary share | 1,823 | 22,783 |
| Special dividend* paid of 0.0279 cents (2000 - Nil) per ordinary share | 509 | — |
| Final dividend proposed after the balance sheet date of Nil cents (2000 - 1.25 cents**) per ordinary share | — | 22,783 |
| | 2,332 | 45,566 |

* On 24 August 2001, the Board of Directors declared a special dividend of 0.0279 cents to the shareholders, totalling approximately \$509,000 (2000 - Nil). The special dividend was paid in specie on the basis of one share of Jessica Publications Limited, a then wholly-owned subsidiary, for every share held by shareholders on 10 September 2001.

** The comparative figures have been adjusted to reflect the share subdivision of each ordinary share of \$0.10 being subdivided into four shares of \$0.025 each (see Note 32).

12. RETAINED PROFIT

Retained profit (consolidated) comprises:

| | 2001 | 2000 |
|--------------------------|-----------------|---------------------------------|
| | \$'000 | \$'000 |
| | | (Restated - Notes 2 & 43) |
| Company and subsidiaries | 195,446 | 198,283 |
| Associates | (28,679) | (40,809) |
| | 166,767 | 157,474 |

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately \$187,031,000 (2000 - \$68,941,000) and on the weighted average number of approximately 1,822,874,000 shares (2000 - 1,822,652,000 shares, after adjusting for the effect of share subdivision as mentioned in Note 32) in issue during the year.

Diluted loss per share is not shown as there is no dilutive effect in either year.

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

14. FIXED ASSETS

- a. Movements in fixed assets (consolidated) were:

| | 2001 | | | | | | | | 2000 |
|---|------------------------|--------------------------------------|-------------------------|------------------|----------------------------|---------|------------------------------|-----------|-----------|
| | Land and buildings (b) | Furniture and leasehold improvements | Machinery and equipment | Moulds and tools | Motor vehicles and vessels | Orchard | Construction-in-progress (c) | Total | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Valuation | | | | | | | | | |
| Beginning of year | 400,953 | 260,425 | 317,900 | 24,227 | 32,360 | 15,843 | 19,515 | 1,071,223 | 838,192 |
| Additions | 5,956 | 18,329 | 8,710 | 708 | 1,107 | — | 8,045 | 42,855 | 117,873 |
| Attributable to acquisition of subsidiaries | — | — | 279 | — | — | — | — | 279 | 32,129 |
| Disposals | (70) | (5,586) | (437) | (52) | (1,361) | — | (120) | (7,626) | (16,133) |
| Attributable to disposal of subsidiaries | — | — | (1,253) | — | — | — | — | (1,253) | — |
| Transfer from construction-in-progress | — | 64 | — | — | — | 4,683 | (4,747) | — | — |
| Transfer from investment properties | — | — | — | — | — | — | — | — | 100,000 |
| Reclassification | 2,895 | 649 | (2,880) | — | (664) | — | — | — | — |
| Translation adjustments | — | — | — | — | — | — | — | — | (838) |
| End of year | 409,734 | 273,881 | 322,319 | 24,883 | 31,442 | 20,526 | 22,693 | 1,105,478 | 1,071,223 |
| Representing: | | | | | | | | | |
| At cost | 252,725 | 273,881 | 322,319 | 24,883 | 31,442 | 20,526 | 22,693 | 948,469 | 914,214 |
| At professional valuation | | | | | | | | | |
| - 2000 | 100,000 | — | — | — | — | — | — | 100,000 | 100,000 |
| - 1994 | 10,973 | — | — | — | — | — | — | 10,973 | 10,973 |
| - 1992 | 204 | — | — | — | — | — | — | 204 | 204 |
| - 1991 | 9,500 | — | — | — | — | — | — | 9,500 | 9,500 |
| - 1989 | 5,220 | — | — | — | — | — | — | 5,220 | 5,220 |
| - 1988 | 31,112 | — | — | — | — | — | — | 31,112 | 31,112 |
| End of year | 409,734 | 273,881 | 322,319 | 24,883 | 31,442 | 20,526 | 22,693 | 1,105,478 | 1,071,223 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Beginning of year | 46,508 | 171,167 | 219,818 | 21,621 | 25,461 | 722 | — | 485,297 | 412,198 |
| Provision for the year | 11,734 | 31,467 | 29,568 | 1,041 | 2,423 | 1,406 | — | 77,639 | 82,639 |
| Attributable to acquisition of subsidiaries | — | — | — | — | — | — | — | — | 3,058 |
| Disposals | (70) | (3,101) | (279) | (52) | (537) | — | — | (4,039) | (11,968) |
| Attributable to disposal of subsidiaries | — | — | (178) | — | — | — | — | (178) | — |
| Reclassification | 610 | 480 | (933) | — | (157) | — | — | — | — |
| Provision for impairment | 10,799 | 3,501 | 16,049 | 47 | 312 | — | — | 30,708 | — |
| Translation adjustments | — | — | — | — | — | — | — | — | (630) |
| End of year | 69,581 | 203,514 | 264,045 | 22,657 | 27,502 | 2,128 | — | 589,427 | 485,297 |
| Net book value | | | | | | | | | |
| End of year | 340,153 | 70,367 | 58,274 | 2,226 | 3,940 | 18,398 | 22,693 | 516,051 | 585,926 |
| Beginning of year | 354,445 | 89,258 | 98,082 | 2,606 | 6,899 | 15,121 | 19,515 | 585,926 | 425,994 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

14. FIXED ASSETS (Continued)

b. Details of land and buildings:

The geographical locations and tenure of title are as follows:

| | 2001 \$'000 | 2000 \$'000 |
|----------------------|----------------|----------------|
| Hong Kong | | |
| - medium-term leases | 180,008 | 101,009 |
| - long-term leases | — | 98,833 |
| The PRC | | |
| - medium-term leases | 46,237 | 35,773 |
| - others * | 113,908 | 118,830 |
| | 340,153 | 354,445 |

* This amount includes approximately \$8,130,000 (2000 - \$5,506,000) for the use of certain land in Shenzhen and Dongguan, the PRC, for which the Group is in the process of applying for the land use rights. The land use rights will be formally transferred to the Group after the remaining consideration of approximately \$5,660,000 (2000 - \$8,242,000) included in the amount disclosed in Note 36 has been paid. The balance of approximately \$77,677,000 (2000 - \$84,578,000) represents construction costs of factory buildings on such land. The remaining balance of approximately \$28,101,000 (2000 - \$28,746,000) represents the cost of certain factory buildings located in Shenzhen, the PRC on land rented for 50 years.

Certain fixed assets with a net book value of approximately \$180,008,000 (2000 - \$196,732,000) are pledged as collateral for the Group's banking facilities (see Note 39).

Certain land and buildings are stated at revalued amounts. Had those land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31 December 2001 would have been approximately \$215,653,000 (2000 - \$314,783,000).

c. Construction-in-progress primarily comprises construction costs incurred for the development of the orchard amounting to approximately \$17,721,000 (2000 - \$18,994,000).

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

15. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

| | 2001 | 2000 |
|---|----------------|-----------|
| | \$'000 | \$'000 |
| Beginning of year | 79,459 | 186,528 |
| Attributable to acquisition of subsidiaries | 99,630 | — |
| Additions | — | 270 |
| Transfer to fixed assets | — | (100,000) |
| Deficit on revaluation | (4,272) | (7,339) |
| End of year | 174,817 | 79,459 |

Investment properties of approximately \$130,430,000 are stated at open market value as at 31 December 2001 as determined by FPD Savills (Hong Kong) Limited, independent qualified valuers. The remaining balance of approximately \$44,387,000 are stated at open market value as at 30 September 2001 as determined by A.G. Wilkinson & Associates, independent qualified valuers.

Certain investment properties with a net book value of approximately \$171,917,000 (2000 - \$79,459,000) are mortgaged as collateral for the Group's banking facilities (see Note 39).

The geographical locations and tenure of investment properties are as follows:

| | 2001 | 2000 |
|----------------------|----------------|--------|
| | \$'000 | \$'000 |
| Hong Kong | | |
| - medium-term leases | 137,567 | 75,459 |
| - long-term leases | 37,250 | 4,000 |
| | 174,817 | 79,459 |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

16. PROPERTIES UNDER DEVELOPMENT

The geographical locations and tenure of properties under development (consolidated) are:

| | 2001 \$'000 | 2000 \$'000 |
|--------------------------------|----------------|----------------|
| Hong Kong - medium term leases | 17,882 | 17,874 |

The properties under development in Hong Kong are mortgaged as collateral for the Group's banking facilities (see Note 39).

17. LAND PENDING DEVELOPMENT

The geographical locations and tenure of land pending development (consolidated) are:

| | 2001 \$'000 | 2000 \$'000 |
|--------------------------------|----------------|----------------|
| Hong Kong - long-term leases | 13,402 | 13,402 |
| The PRC - medium term leases * | 67,233 | 76,783 |
| | 80,635 | 90,185 |

* As at 31 December 2001, land pending development of approximately \$23,257,000 (2000 - \$23,307,000) was held under land use rights expiring from 2043 through 2063, whilst the remaining balance of approximately \$43,976,000 (2000 - \$53,476,000) was related to land for which the Group was in the process of applying for formal land use rights.

All the land pending development located in Hong Kong is mortgaged as collateral for the Group's banking facilities (see Note 39).

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

| | 2001 | 2000 |
|--------------------------|----------------|---------|
| | \$'000 | \$'000 |
| Unlisted shares, at cost | 527,702 | 527,702 |
| Advances to subsidiaries | 291,618 | 265,767 |
| | 819,320 | 793,469 |

All of the balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months, except for advances to subsidiaries of approximately \$7,000,000 (2000 - \$6,430,000) which bear interest at 3% above the Hong Kong prime lending rate.

The underlying value of investment in subsidiaries is, in the opinion of the Directors, not less than the Company's carrying value as at 31 December 2001.

Details of the principal subsidiaries as at 31 December 2001, all held indirectly by the Company, are as follows:

| Name of company | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest held | Principal activities |
|---|---------------------------------------|-------------------------------------|------------------------------------|--|
| <u>South China Industries Group:</u> | | | | |
| South China Industries Limited (listed on The Stock Exchange of Hong Kong Limited) | Cayman Islands/ Hong Kong | \$53,033,000 | 74.7% | Investment holding |
| Micon Limited | Hong Kong | \$2 | 74.7% | Investment holding |
| South China Industries Investments Limited | Hong Kong | \$92,531,436 | 74.7% | Investment holding |
| South China (Tianjin) Garment Co. Ltd. (c) | The PRC | Rmb49,132,182 | 44.8% (e) | Manufacturing of clothing |
| Tianjin South China Leather Products Co. Ltd. (c) | The PRC | Rmb9,882,115 | 52.3% | Manufacturing of leather products |
| Tianjin South China Shoes Products Co. Ltd. (c) | The PRC | Rmb36,100,200 | 59.8% | Manufacturing of leather footwear products |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest held | Principal activities |
|---|---------------------------------------|---|------------------------------------|---|
| Tianjin South China Leather Chemical Products Co. Ltd. (c) | The PRC | Rmb19,681,600 | 59.8% | Manufacturing of leather products |
| Trimwell Limited | Hong Kong | \$2 | 74.7% | Investment holding |
| Wah Shing Electronics Company Limited | Hong Kong/ The PRC | \$571,500 | 44.1% (e) | Manufacturing of toys |
| <u>Wah Shing International Holdings Group:</u> | | | | |
| WSIHG (listed on The Singapore Exchange Securities Trading Limited) | Bermuda /Hong Kong | \$226,800,000 | 39.4% (e) | Investment holding |
| Buji Soft Toys Company Limited | Hong Kong | \$20 ordinary \$6,000,000 non-voting deferred shares (a) | 39.4% (e) | Trading in toys |
| Buji Soft Toys Company (BVI) Limited | British Virgin Islands/ The PRC | US\$1,000 | 39.4% (e) | Manufacturing of toys |
| Copthorne Holdings Corporation | Republic of Panama /Hong Kong | US\$200 | 39.4% (e) | Property investment |
| Man Wah Trading Limited | Hong Kong | \$10,000 | 39.4% (e) | Investment in securities |
| Wah Shing Toys Company Limited | Hong Kong | \$2 ordinary \$3,020,002 non-voting deferred shares (b) | 39.4% (e) | Trading in toys and investment holding |
| <u>SCIT Group:</u> | | | | |
| SCIT (listed on The Stock Exchange of Hong Kong Limited) | Cayman Islands/ The PRC | \$68,053,000 | 49.1% (e) | Investment holding |
| South China Strategic Limited | Hong Kong | \$308,594,000 | 49.1% (e) | Investment holding |
| South China Strategic Property Development Limited | Hong Kong | \$5,000,000 | 49.1% (e) | Property development and investment holding |
| Shanghai Zhongteng Information Network Co. Ltd. (c) | The PRC | Rmb4,600,000 | 32.9% (e) | Information and Technology related business |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest held | Principal activities |
|--|---------------------------------------|-------------------------------------|------------------------------------|---|
| Chongqing South China Zenith Information Technology Co. Ltd. (c) | The PRC | Rmb7,000,000 | 29.5% (e) | Information and Technology related business |
| Shenyang Shenglian Electronics Science & Technology Ltd. (c) | The PRC | Rmb4,000,000 | 34.3% (e) | Information and Technology related business |
| <u>South China Brokerage Group:</u> | | | | |
| South China Brokerage Company Limited (formerly known as South China Online Limited) (listed on The Stock Exchange of Hong Kong Limited) | Hong Kong | \$121,554,000 | 74.5% | Investment holding |
| South China Capital Limited | Hong Kong | \$2 | 74.5% | Corporate finance advisory services |
| South China Commodities Limited | Hong Kong | \$10,000,000 | 74.5% | Commodities broking |
| South China Finance and Management Limited | Hong Kong | \$2 | 74.5% | Share dealing and provision of management services |
| South China Financial Credits Limited | Hong Kong | \$42,125,000 | 70.8% | Money lending |
| South China Research Limited | Hong Kong | \$600,000 | 74.5% | Research publications |
| South China Securities Limited | Hong Kong | \$10,000,000 | 74.5% | Securities broking and margin financing |
| South China Securities (UK) Limited | United Kingdom | £200,000 | 74.5% | Provision of securities trading services |
| <u>South China Media Group:</u> | | | | |
| South China Media Limited | Hong Kong | \$2 | 100% | Provision of publishing, marketing and promotional services |

Notes to the Financial statements

(Amounts expressed in Hong Kong dollars unless dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest held | Principal activities |
|--|---------------------------------------|-------------------------------------|------------------------------------|--|
| South China Media Online Limited | Hong Kong | \$2 | 100% | Provision of e-commerce consultation and management services |
| <u>Other subsidiaries:</u> | | | | |
| Bright Come Investments Limited | Hong Kong | \$2 | 100% | Investment holding |
| Guangdong Huaxing Fruit Development Co. Ltd. (d) | The PRC | Rmb46,749,755 | 100% | Fruit plantation |
| Kitbond Investments Limited | Hong Kong | \$100 | 100% | Investment holding |
| Nanjing South China Bao Qing Jewellery Ltd. (c) | The PRC | Rmb3,083,200 | 60% | Manufacturing and sale of ornaments and jewellery |
| Shengyang Jinchang Pharmaceutical Company Limited (c) | The PRC | Rmb14,698,695 | 35.7% (e) | Manufacturing of medical products |
| Spark-inn Investments Limited | Hong Kong | \$2 | 100% | Property investment |
| Tek Lee Finance And Investment Corporation Limited | Hong Kong | \$287,498,818 | 100% | Investment holding |
| Tianjin South China Real Estate Development Co. Ltd. (c) | The PRC | Rmb43,000,000 | 51% | Property development |

Notes:

- (a) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$5,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- (b) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$100,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- (c) These are sino-foreign equity joint ventures established in the PRC for periods of 10 to 50 years from 2004 to 2050.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES (Continued)

Notes: (Continued)

- (d) This is a wholly-foreign owned subsidiary established in the PRC for a period of 60 years from 1992 to 2052.
- (e) These are subsidiaries as the Group's interests in these companies are held through subsidiaries which in turn hold more than 50% of the issued voting share capital in these companies and the Group has the power to govern the financial and operating decisions.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results 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.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2001.

19. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) comprised:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Unlisted shares, at cost | 160,274 | 160,274 |
| Shares listed in Hong Kong, at cost | 65,159 | 109,774 |
| Goodwill on acquisition, eliminated against reserves | (705) | (7,556) |
| | 224,728 | 262,492 |
| Share of undistributed post-acquisition results | (28,679) | (40,809) |
| Provision for impairment in value | (3,341) | (3,341) |
| | 192,708 | 218,342 |
| Advances to associates (a) | 270,381 | 301,124 |
| Provision against advances to associates | (36,025) | — |
| | 234,356 | 301,124 |
| Advances from associates | (21,434) | (19,220) |
| | 405,630 | 500,246 |
| Quoted market value of shares listed in Hong Kong | 108,413 | 117,757 |

The advances from associates are unsecured, non-interest bearing and, not repayable within next twelve months.

The underlying value of the investment in associates is, in the opinion of the Directors, not less than the carrying value as at 31 December 2001.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

- a. Details of advances to associates (consolidated) are as follows:

| | 2001 | 2000 |
|--|-----------------|---------|
| | \$'000 | \$'000 |
| Firm Wise Investment Limited ("FWIL") | 247,564 | 235,694 |
| Fourseas.com Limited | — | 51,797 |
| Shanghai Qiao Ning Real Estate Development Co. Limited | 15,335 | 6,894 |
| Others | 7,482 | 6,739 |
| | 270,381 | 301,124 |
| Provision against advances to an associate | (36,025) | — |
| | 234,356 | 301,124 |

The amounts advanced to Firm Wise Investment Limited have been used to finance its property development project in Hong Kong. The advances are unsecured, bear interest at 0.5% per annum and are not repayable within the next twelve months.

The amounts advanced to other associates are unsecured, non-interest bearing and not repayable within the next twelve months, except for the advances to Fourseas.com Limited which bore interest rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2% per annum.

- b. Details of the principal associates as at 31 December 2001, all held indirectly by the Company, are:

| Name of company | Place of incorporation and operations | Percentage of equity interest held | Principal activities |
|-----------------------------------|---------------------------------------|------------------------------------|--|
| Firm Wise Investment Limited (iv) | Hong Kong | 14.7% (i) | Property development |
| Hong Kong Four Seas Tours Limited | Hong Kong | 24.1% | Sale of air tickets and provision of travel-related services |
| Giant Riches Limited | Hong Kong | 43.6% | Property development |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

| Name of company | Place of incorporation and operations | Percentage of equity interest held | Principal activities |
|--|---------------------------------------|------------------------------------|--|
| Nanjing South China Dafang Electric Co. Ltd. (iii) | The PRC | 38.1% (ii) | Manufacturing of electrical motors |
| Nority International Group Limited (listed on The Stock Exchange of Hong Kong Limited) | Cayman Islands/ The PRC | 31.4% | Manufacturing of shoes and footwear products |
| Tianjin South China Tools (Holdings) Co. Ltd. (iii) | The PRC | 38.1% (ii) | Manufacturing of tools |

The above summary lists only the principal associates of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

- This is an associate as the Group's interests in this company are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in this company and the Group has significant influence over their financial and operating policies.
- Prior to 1 January 1998, these companies were regarded as subsidiaries of the Group, as the Company's Directors considered they could exercise control over them. During the year ended 31 December 1998, the Group started discussions with its joint venture partners with the objective of rationalising its investments in the PRC, and as a result, the Company's Directors consider they can now only exercise significant influence over these companies and hence they have been classified as associates since that time.

During the year, the Group continued its negotiation process with its joint venture partners. In addition, legal proceedings were taken against certain joint venture partners for breach of the joint venture agreements. In the opinion of the Company's Directors and the Group's internal legal counsel, the outcome of such negotiation and legal proceedings is likely to be favourable to the Group and the Group will be able to recover at least the carrying value of its investments in these companies.

- These associates are equity joint ventures established in the PRC for periods of 10 to 50 years from 2003 to 2046.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVESTMENT IN ASSOCIATES (Continued)

- iv. FWIL is principally engaged in the holding of investment property. As at 31 December 2001, the carrying value of the property, as reflected in its unaudited financial statements, amounted to approximately \$1,350,000,000. The Directors have assessed the realisable value of the property, by reference to the market price of comparable buildings and advice from independent qualified valuers, and consider that the fair value of the property as at 31 December 2001 was not less than its carrying value as at that date.

A summary of the balance sheet as at 31 December 2001 of FWIL based on its unaudited financial statements and the Group's attributable interests in FWIL is as follows:

| | Balance sheet |
|-------------------------------|----------------------|
| | \$'000 |
| Investment property | 1,350,000 |
| Other assets | 7,339 |
| | 1,357,339 |
| Trade payables and accruals | (54,374) |
| Short-term bank borrowings | (25,000) |
| Long-term bank borrowings | (541,508) |
| Due to shareholders | (885,441) |
| | (1,506,293) |
| Net liabilities | (148,954) |
| Group's attributable interest | (21,886) |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprise:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Investments in shares listed in Hong Kong, at market value | 80,340 | 66,950 |
| Unlisted investments, at cost | 46,725 | 43,534 |
| Provision for impairment in value | (12,214) | (5,000) |
| | 34,511 | 38,534 |
| | 114,851 | 105,484 |

The underlying value of the Group's long-term investments is, in the opinion of the Directors, not less than the carrying value as at 31 December 2001.

21. LOANS AND ADVANCES

Loans and advances (consolidated) comprise:

| | 2001 \$'000 | 2000 \$'000 |
|---|----------------|----------------|
| Loans and advances to customers | 386,715 | 373,954 |
| Provision for bad and doubtful debts | (100,761) | (85,727) |
| | 285,954 | 288,227 |
| Market value of collateral at the end of year | 435,261 | 518,896 |

As at 31 December, 2001, certain collateral of customers was pledged to secure banking facilities granted to the Group (see Note 39).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. LOANS AND ADVANCES (Continued)

As at 31 December 2001, analysis of the maturity profile of loans and advances to customers, net of provision for bad and doubtful debts, (consolidated) by remaining periods to their contractual maturity dates is as follows:

| | 2001 \$'000 | 2000 \$'000 |
|---|------------------|----------------|
| Repayable: | | |
| On demand | 166,415 | 255,412 |
| Within three months | 44,418 | 6,119 |
| Within one year but over three months | 60,955 | 17,460 |
| Within five years but over one year | 13,485 | 8,819 |
| Over five years | — | 417 |
| | 285,273 | 288,227 |
| Portion classified in current assets | (271,788) | (278,991) |
| Portion classified as long-term loans and advances under non-current assets | 13,485 | 9,236 |

22. INTANGIBLE ASSETS

Movements in intangible assets (consolidated) were:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Cost: | | |
| Beginning of year | 1,619 | — |
| Transfer from other non-current assets | — | 1,619 |
| End of year | 1,619 | 1,619 |
| Accumulated amortisation | | |
| Beginning of year | 135 | — |
| Provision for the year | 162 | 135 |
| End of year | 297 | 135 |
| Beginning of year | 1,484 | — |
| End of year | 1,322 | 1,484 |

Intangible assets comprise The Stock Exchange Trading Rights and Futures Exchange Trading Rights.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. OTHER NON-CURRENT ASSETS

Other non-current assets (consolidated) comprise:

| | 2001 \$'000 | 2000 \$'000 |
|---|----------------|----------------|
| Membership in the Chinese Gold and Silver Exchange | 1,280 | 1,280 |
| Statutory deposits in respect of securities and commodities dealings | 4,450 | 4,800 |
| Others | 3,546 | 1,399 |
| | 9,276 | 7,479 |

24. INVENTORIES

Inventories, net of provision for slow-moving and obsolete inventories (consolidated), comprise:

| | 2001 \$'000 | 2000 \$'000 |
|------------------|----------------|----------------|
| Raw materials | 81,020 | 128,188 |
| Work-in-progress | 70,115 | 80,835 |
| Finished goods | 66,593 | 62,387 |
| | 217,728 | 271,410 |

As at 31 December 2001, inventories carried at net realisable value were approximately \$6,154,000 (2000 - \$27,644,000).

Certain inventories were held under import trust receipts bank loans (see Note 39).

25. LISTED INVESTMENTS

Listed investments (consolidated) comprise:

| | 2001 \$'000 | 2000 \$'000 |
|--------------------------------|----------------|----------------|
| Listed shares, at market value | | |
| - Hong Kong | 99,620 | 174,881 |
| - Others | 341 | 668 |
| | 99,961 | 175,549 |

As at 31 December 2001, certain listed investments are pledged to secure banking facilities granted to the Group (see Note 39).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. PROPERTIES HELD FOR SALE

Properties held for sale are located in the PRC. As at 31 December 2001, properties held for sale of approximately \$24,294,000 (2000 - 10,694,000) were held under land use rights expiring in 2040, whilst the remaining balance of approximately \$28,737,000 (2000 - \$28,605,000) was related to land for which the Group was in the process of applying for formal land use rights certificate.

27. TRADE RECEIVABLES

As at 31 December 2001, an aging analysis of trade receivables, net of provision for bad and doubtful debts (consolidated) is as follows:

| | 2001 | 2000 |
|-----------------------|----------------|---------|
| | \$'000 | \$'000 |
| 1 month to 6 months | 225,563 | 324,784 |
| 7 months to 12 months | 1,960 | 6,925 |
| | 227,523 | 331,709 |

Sales of goods (including software, hardware, advertising income and circulation income and the provision of system integration services) are largely on credit, except for new customers when trade deposits are normally required. The credit terms of trade debtors are defined in the respective sales agreements, usually from cash before delivery to 90 days after delivery.

The Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties.

Rental in respect of leased properties is payable by the tenants on a monthly basis.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings comprise:

| | Consolidated | | Company | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Overdrafts | 35,101 | 68,146 | 7,000 | — |
| Short-term loans | 321,544 | 255,395 | — | — |
| Import trust receipts bank loans | 70,068 | 94,133 | — | — |
| | 426,713 | 417,674 | 7,000 | — |
| Representing : | | | | |
| Secured | 343,207 | 378,833 | 7,000 | — |
| Unsecured | 83,506 | 38,841 | — | — |
| | 426,713 | 417,674 | 7,000 | — |

As at 31 December 2001, approximately \$259,500,000 (2000 - \$179,520,000) of the short-term loans were secured by clients' listed investments and were incurred in connection with the Group's securities and commodities brokerage business. The import trust receipts bank loan were secured by inventories released under such loan. Refer to Note 39 for details of the Group's banking facilities.

29. TRADE PAYABLES

As at 31 December 2001, an aging analysis of trade payables (consolidated) is as follows:

| | 2001 \$'000 | 2000 \$'000 |
|-----------------------|----------------|----------------|
| 1 month to 6 months | 479,676 | 484,902 |
| 7 months to 12 months | 20,232 | 7,926 |
| Over 12 months | 10,625 | 14,133 |
| | 510,533 | 506,961 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. LONG-TERM LOANS

Details of long-term loans (secured) are:

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Amounts repayable within a period | | | | |
| - not exceeding one year | 35,313 | 22,823 | — | 3,144 |
| - more than one year | | | | |
| but not exceeding two years | 45,334 | 19,567 | — | 3,286 |
| - more than two years | | | | |
| but not exceeding five years | 61,322 | 22,173 | — | — |
| - over five years | 32,585 | 2,100 | — | — |
| | 174,554 | 66,663 | — | 6,430 |
| Less: Amounts repayable within one year included under current liabilities | (35,313) | (22,823) | — | (3,144) |
| | 139,241 | 43,840 | — | 3,286 |

Refer to Note 39 for details of the Group's banking facilities.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

| | 2001 | 2000 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Beginning of year | 1,342 | 1,216 |
| Translation adjustments | — | 37 |
| (Write-back of) Provision for the year | (12) | 89 |
| End of year | 1,330 | 1,342 |

Deferred taxation represents the taxation effect of accelerated depreciation for taxation purposes.

No deferred taxation on revaluation surpluses of land and buildings (see Note 34) has been provided because the revaluations do not constitute timing differences.

As at 31 December 2001, there were unprovided deferred taxation benefits of approximately \$30,767,000 (2000 - 23,296,000), resulting from the Group's tax losses carried forward.

32. SHARE CAPITAL

Movement in share capital was:

| | 2001 | | 2000 | |
|--|--------------------------------------|-------------------------------------|-----------------------------|----------------------------|
| | Number of shares '000 | Nominal value \$'000 | Number of shares '000 | Nominal value \$'000 |
| Authorised ordinary shares of \$0.025 each (2000 - \$0.1 before share subdivision) | | | | |
| Beginning of year | 1,000,000 | 100,000 | 1,000,000 | 100,000 |
| Share subdivision (a) | 3,000,000 | — | — | — |
| | 4,000,000 | 100,000 | 1,000,000 | 100,000 |
| Issued and fully paid ordinary shares of \$0.025 each (2000 - \$0.1 before share subdivision) | | | | |
| Beginning of year | 455,663 | 45,566 | 455,663 | 45,566 |
| Share subdivision (a) | 1,366,988 | — | — | — |
| Issue of shares (b) | 750 | 18 | — | — |
| End of year | 1,823,401 | 45,584 | 455,663 | 45,566 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SHARE CAPITAL (Continued)

Notes:

- (a) On 11 July 2001, the Board of Directors proposed a share subdivision ("Share Subdivision") for all ordinary shares of the Company. In this connection, each of the ordinary shares of \$0.10 each in the share capital of the Company was subdivided into four ordinary shares of \$0.025 each. The Share Subdivision was approved at the extraordinary general meeting of shareholders held on 15 August 2001.
- (b) During the year, the issued share capital of the Company was increased by approximately \$18,000 arising from the exercise of 750,624 warrants at \$0.55 (after adjustment for the share subdivision) per share. The new shares rank pari passu with the existing shares (see Note 33).

33. WARRANTS AND SHARE OPTIONS

During the year, 750,624 warrants were exercised at \$0.55 (after adjustment for the share subdivision) per share and the Company issued approximately 750,624 ordinary shares. Other than the above, all outstanding warrants expired on 22 November 2001.

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

As at 31 December 2001, the Company had 65,260,000 (2000 - 65,712,000) outstanding share options (at subscription prices of \$0.22 to \$0.60 per share) (after adjustment for the share subdivision). During the year, 452,000 share options were cancelled and no share options were exercised.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. RESERVES

Movements of reserves (consolidated) were:

| | 2001 | | | | | | | | 2000 |
|---|---------------|----------------------------|-----------------|---------------------------------|--|------------------------|------------------------------------|------------|-----------|
| | Share premium | Capital redemption reserve | Special reserve | Fixed asset revaluation reserve | Long-term investment revaluation reserve | Statutory reserves (a) | Cumulative translation adjustments | Total | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Beginning of year | | | | | | | | | |
| - as previously reported | 252,840 | 56 | 492,839 | 11,255 | (55,128) | 2,785 | 4,429 | 709,076 | 619,246 |
| - prior year adjustments (see Note 2.b.iii) | — | — | 79,235 | — | — | — | — | 79,235 | 52,807 |
| | 252,840 | 56 | 572,074 | 11,255 | (55,128) | 2,785 | 4,429 | 788,311 | 672,053 |
| Premium on issue of new shares | 394 | — | — | — | — | — | — | 394 | — |
| Goodwill arising from acquisition of subsidiaries | — | — | — | — | — | — | — | — | (10,348) |
| Goodwill arising from acquisition of additional interests in subsidiaries | — | — | — | — | — | — | — | — | (21,049) |
| Negative goodwill from acquisition of additional interests in an associate | — | — | — | — | — | — | — | — | 1 |
| Reversal of negative goodwill upon disposal of interests in a subsidiary | — | — | — | — | — | — | — | — | (467) |
| Impairment of goodwill | — | — | — | — | — | — | — | — | 26,428 |
| Reversal of goodwill upon disposal of an associate | — | — | 2,933 | — | — | — | — | 2,933 | — |
| Transfer to retained profit (b) | — | — | (200,000) | — | — | — | — | (200,000) | (12,076) |
| Changes in special reserve arising from placement of warrants by a subsidiary | — | — | (46,983) | — | — | — | — | (46,983) | 46,983 |
| Net surplus (deficit) on revaluation | — | — | — | — | 2,758 | — | — | 2,758 | (7,571) |
| Reversal of long-term investment revaluation reserve upon disposal | — | — | — | — | 552 | — | — | 552 | 6,434 |
| Provisions for impairment in value of long-term listed investments | — | — | — | — | 6,562 | — | — | 6,562 | 86,957 |
| Transfer from retained profit | — | — | — | — | — | 924 | — | 924 | 404 |
| Translation adjustments | — | — | — | — | — | — | (1,187) | (1,187) | 562 |
| End of year | 253,234 | 56 | 328,024 | 11,255 | (45,256) | 3,709 | 3,242 | 554,264 | 788,311 |
| Company | | | | | | | | | |
| Beginning of year | 252,840 | 56 | 486,429 | — | — | — | — | 739,325 | 739,325 |
| Premium on issue of new shares | 394 | — | — | — | — | — | — | 394 | — |
| Transfer to retained profit (b) | — | — | (200,000) | — | — | — | — | (200,000) | — |
| End of year | 253,234 | 56 | 286,529 | — | — | — | — | 539,719 | 739,325 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. RESERVES (Continued)

Notes:

a. Statutory reserves:

The subsidiaries established in the PRC are required to make appropriation from their respective retained profits to certain statutory reserve funds in accordance with PRC rules and regulations. Movements of the statutory reserve funds were:

| | 2001 | | | 2000 |
|-------------------------------|-----------------|---------------------|--------|--------|
| | General fund | Development fund | Total | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Beginning of year | 859 | 1,926 | 2,785 | 2,381 |
| Transfer from retained profit | 462 | 462 | 924 | 404 |
| End of year | 1,321 | 2,388 | 3,709 | 2,785 |

The general fund can be utilised to offset prior years' losses or to increase capital on the condition that the general fund shall be maintained at a minimum of 25% of the capital after such issuance. The development fund is to be utilised for the betterment of business operations.

b. During the year, the Company transferred \$200 million from special reserve to retained profit. This transfer has no impact on the Company's or the Group's total capital and reserves or on the Company's distributable reserves.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- a. Reconciliation of loss before taxation to net cash inflow (outflow) from operating activities:

| | 2001 | 2000 |
|---|------------------|---------------------------------|
| | \$'000 | \$'000 |
| | | (Restated - Notes 2 & 43) |
| Loss before taxation | (277,790) | (88,833) |
| Interest income | (15,524) | (13,650) |
| Finance costs | 21,275 | 26,427 |
| Realisation of warrant subscription reserve of a subsidiary | (63,050) | — |
| Gain on disposal of subsidiaries | (33) | (51,426) |
| Loss (Gain) on investment in associates | 35,192 | (31,099) |
| Loss (Gain) on disposal of long-term listed investments | 1,201 | (166,943) |
| Provision for (Write-back of) impairment in value of fixed assets and land pending development | 40,258 | (6,790) |
| Provision for impairment in value of long-term investments | 18,883 | 130,669 |
| Deficit on revaluation of investment properties | 4,272 | 7,339 |
| Amortisation of intangible assets | 162 | 135 |
| Impairment of goodwill | 625 | 26,428 |
| Share of losses of associates | 21,200 | 40,721 |
| Depreciation of fixed assets | 77,639 | 82,639 |
| Dividend income from listed investments | (5,622) | (1,230) |
| Dividend income from unlisted investments | — | (202) |
| Net loss on disposal of fixed assets | 156 | 1,459 |
| Decrease in inventories | 53,842 | 21,418 |
| Decrease (Increase) in short-term listed investments | 75,588 | (76,618) |
| Decrease (Increase) in loans and advances | 2,273 | (3,431) |
| Decrease in properties held for sale | 5,768 | 630 |
| Decrease in trade receivables, prepayments and deposits | 126,738 | 97,945 |
| (Increase) Decrease in cash held on behalf of clients | (41,631) | 2,123 |
| Increase (Decrease) in advances from associates | 2,214 | (4,784) |
| Decrease in amounts due from related companies | (459) | — |
| Decrease in bills payable, trade payables and accrued liabilities | (58,903) | (164,403) |
| Increase in other non-current payable | 2,951 | — |
| | 27,225 | (171,476) |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- b. Details of net assets of subsidiaries acquired as a consequence of the acquisition of subsidiaries are as follows:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Fixed assets | 279 | 29,071 |
| Investment properties | 99,630 | — |
| Properties held for sale | 19,500 | — |
| Inventories | 978 | 3,947 |
| Trade receivables | 935 | 8,524 |
| Prepayments and deposits | 1,916 | 7,480 |
| Due from former shareholders | — | 3,472 |
| Cash and bank deposits | 1,362 | 3,134 |
| Short-term bank borrowings | — | (8,348) |
| Trade payables | (2,287) | (1,928) |
| Accrued liabilities | (5,377) | (3,073) |
| Taxation payable | — | (144) |
| Long-term loans | (99,991) | — |
| Minority interests | — | (5,050) |
| Group's share of net assets acquired | 16,945 | 37,085 |
| Interest originally held by the Group | — | (29,681) |
| Goodwill on acquisition | 625 | 15,515 |
| Negative goodwill on acquisition and was recognised as income | (686) | — |
| Exchange losses | — | (1,545) |
| Consideration paid | 16,884 | 21,374 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Net cash outflow arising from the acquisition is as follows:

| | 2001 \$'000 | 2000 \$'000 |
|-----------------------------------|----------------|----------------|
| Cash and bank deposits acquired | 1,362 | 3,134 |
| Cash consideration paid | (16,884) | (21,374) |
| Net cash outflow from acquisition | (15,522) | (18,240) |

C. Details of net assets of subsidiaries disposed of during the year are as follows:

| | \$'000 |
|---|---------|
| Fixed assets | 1,075 |
| Inventories | 818 |
| Prepayments and deposits | 631 |
| Trade receivables | 1,457 |
| Cash and bank deposits | 992 |
| Trade payables | (355) |
| Accrued liabilities | (790) |
| | 3,828 |
| Less: minority interests | (1,281) |
| Group's share of net assets disposed of | 2,547 |
| Gain on disposal of subsidiaries | 33 |
| Consideration received/receivable | 2,580 |
| Satisfied by: | |
| Cash | — |
| Due from a related company (Note 40) | 2,580 |
| | 2,580 |

Net cash outflow from disposal of subsidiaries during the year is as follows:

| | \$'000 |
|---|--------|
| Cash and bank deposits disposed of | (992) |
| Cash consideration received | — |
| Net cash outflow disposal of subsidiaries | (992) |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

d. Analysis of changes in financing during the years is as follows:

| | Share capital (including share premium) \$'000 | Short-term loans with maturities over three months and long-term bank loans \$'000 | Obligations under finance leases \$'000 | Minority interests \$'000 | Total \$'000 |
|--|---|--|--|---------------------------------|-----------------|
| 1 January 2000 | 298,406 | 161,677 | 2,963 | 609,116 | 1,072,162 |
| Dividends paid to minority shareholders | — | — | — | (37,303) | (37,303) |
| Share of losses for the year | — | — | — | (27,608) | (27,608) |
| Inception of finance leases | — | — | 3,147 | — | 3,147 |
| Repayment of capital element of finance leases | — | — | (3,517) | — | (3,517) |
| Contribution from minority shareholders | — | — | — | 8,207 | 8,207 |
| Share of minority interests in reserves | — | — | — | 35,234 | 35,234 |
| New loans and borrowings | — | 117,406 | — | — | 117,406 |
| Repayment of loans and borrowings | — | (50,760) | — | — | (50,760) |
| Attributable to acquisition of subsidiaries | — | 8,348 | — | 5,050 | 13,398 |
| Attributable to disposal of interests in subsidiaries | — | — | — | 55,232 | 55,232 |
| Attributable to acquisition of additional interests in subsidiaries | — | — | — | (13,408) | (13,408) |
| Exchange differences | — | — | — | (475) | (475) |
| 31 December 2000 | 298,406 | 236,671 | 2,593 | 634,045 | 1,171,715 |
| Issue of shares | 412 | — | — | — | 412 |
| Dividends paid to minority shareholders | — | — | — | (17,019) | (17,019) |
| Share of losses for the year | — | — | — | (127,347) | (127,347) |
| Repayment of capital element of finance leases | — | — | (2,593) | — | (2,593) |
| Issue of new shares of a subsidiary to minority shareholders | — | — | — | 464 | 464 |
| Net proceeds of right issues contributed by minority shareholders of a subsidiary | — | — | — | 44,032 | 44,032 |
| Increase in advance to minority interests | — | — | — | (4,721) | (4,721) |
| Contribution from minority shareholders | — | — | — | 9,785 | 9,785 |
| Share of minority interests in reserves | — | — | — | (8,111) | (8,111) |
| New loans and borrowings | — | 7,900 | — | — | 7,900 |
| Repayment of loans and borrowings | — | (37,896) | — | — | (37,896) |
| Attributable to acquisition of subsidiaries | — | 99,991 | — | — | 99,991 |
| Attributable to disposal of subsidiaries | — | — | — | (1,281) | (1,281) |
| Exchange differences | — | — | — | (91) | (91) |
| 31 December 2001 | 298,818 | 306,666 | — | 529,756 | 1,135,240 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- e. Analysis of cash and cash equivalents:

| | 2001 \$'000 | 2000 \$'000 |
|---|------------------|----------------|
| Cash and bank deposits - general bank balances | 170,667 | 159,984 |
| Bank overdrafts | (35,101) | (68,146) |
| Short-term loans with original maturities less than three months | (259,500) | (179,520) |
| | (123,934) | (87,682) |

36. COMMITMENTS

- a. Capital commitments (consolidated):

As at 31 December 2001, the Group had capital commitments in Hong Kong and the PRC as follows:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Contracted but not provided for | | |
| - Purchase of fixed assets | 13,009 | 6,418 |
| - Acquisition of land use rights | 8,331 | 16,617 |
| | 21,340 | 23,035 |
| Authorised by the Directors but not contracted for | | |
| - Property development projects | 36,178 | 76,519 |
| | 57,518 | 99,554 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. COMMITMENTS (Continued)

b. Operating lease commitments (consolidated):

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to 2044 are as follows:

| | 2001 \$'000 | 2000 \$'000 |
|----------------------------|----------------|----------------|
| Amounts payable | | |
| - within one year | 14,079 | 25,031 |
| - within two to five years | 11,506 | 20,884 |
| - over five years | 74,650 | 77,400 |
| | 100,235 | 123,315 |

c. As at 31 December 2001, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Amounts receivable due | | |
| - within one year | 5,657 | 2,500 |
| - after one year but within five years | 4,978 | 1,427 |
| - after five years | 662 | — |
| | 11,297 | 3,927 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

37. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprise:

- a. Guarantees given to banks:

| | 2001 \$'000 | 2000 \$'000 |
|---|----------------|----------------|
| - Guarantees given to banks for banking facilities granted to an associate, Firm Wise Investment Limited ("FWIL") (see Note 19) | 174,000 | 165,989 |
| - Guarantees given to banks in connection with letters of guarantee issued by the banks | 5,500 | 5,500 |
| - Undertaking to a former associate for banking facilities granted to an associate | 23,250 | — |
| | 202,750 | 171,489 |

- b. Outstanding litigation

As at 31 December 2001, there was outstanding litigation originally lodged in February 1999 against SCIT Group in respect of a claim for damages. The Directors believe that SCIT Group has good grounds to resist the claim because the plaintiffs failed to diligently prosecute the action. In addition, one of the defendants has successfully applied to strike off the claim against him which weakened the credibility of the plaintiffs. The Directors do not believe that SCIT Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

38. PENSION SCHEME

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group operates two pension schemes, one registered under the Occupational Retirement Scheme Ordinance ("the ORSO Scheme") and one registered under the Mandatory Provident Fund legislation ("the MPF Scheme").

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes at 5% of their basic salaries, while the Group makes monthly contributions to these schemes at 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees after 1 December 2000.

The MPF Scheme was set up on 1 December 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, the Company and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to maximum monthly earnings of \$20,000.

The Group's PRC subsidiaries contribute to a state-sponsored retirement plan approximately 12% to 30% of the basic salary of their employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate employer's contribution made by the Group was approximately \$14,598,000 (2000 - \$13,013,000) after deduction of forfeited contributions of approximately \$506,000 (2000 - \$2,815,000). As at 31 December 2001, there were no material forfeitures available to offset the Group's future contributions (2000 - Nil).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

39. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31 December 2001, the Group's banking facilities for overdrafts, loans and trade financing were secured by:

- (i) pledges over certain of the Group's land and buildings, machinery and equipment, investment properties, properties under development and land pending development with a carrying value of approximately \$369,807,000 (2000 - \$294,065,000) (see Notes 14.b, 15, 16 and 17);
- (ii) floating charges on the Group's inventories released under import trust receipts bank loans (see Note 24);
- (iii) pledges of the Group's bank deposits of approximately \$1,500,000 (2000 - \$29,000,000); and
- (iv) pledges of the listed investments of the Group and certain collateral of the clients of the Group placed on margin accounts in connection with the Group's securities and commodities brokerage business with an aggregate quoted market value as at 31 December 2001 of approximately \$447,753,000 (2000 - \$639,076,000).

40. RELATED PARTY TRANSACTIONS

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.

- a. Significant transactions with related parties are summarised below:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Interest income received from associates (see Note 19) | 6,775 | 8,116 |
| Interest expense on amount due to an associate | 283 | — |
| Management fees from | | |
| - associates (i) | 5,850 | 5,300 |
| - a related company (ii) | 1,434 | — |
| Staff costs received from a related company (ii) | 1,958 | — |
| Printing fee from a related company (ii) | 486 | — |

In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) The Group charged management fees of approximately \$2,000,000 (2000 - \$2,000,000) and \$3,850,000 (2000 - \$3,300,000) to Fourseas.com Limited and Giant Riches Limited, respectively, for provision of administrative support services.
- (ii) The Group charged management fee, staff costs and printing fee to Jessica Publications Limited ("JPL"), a company in which Mr. Ng Hung Sang, Robert is a director, for provision of certain personnel, printing and administrative support services to its subsidiaries.

- b. Outstanding balances with related parties are as follows:

| | Consolidated | | Company | | Maximum balances outstanding during the year |
|--|----------------|----------------|----------------|----------------|--|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 | \$'000 |
| Due from related companies - JPL | 459 | — | — | — | 459 |
| Anwell Profits Limited* ("Anwell") (Note 35.c) | 2,580 | — | — | — | 2,580 |
| | 3,039 | — | — | — | |

* Anwell is a company majority owned by Mr. Ng Hung Sang, Robert, the Chairman of the Company.

The balances due from related companies are unsecured, non-interest bearing and have no pre-determined repayment terms.

- c. The Group has provided a guarantee of approximately \$174,000,000 (2000 - \$165,989,000) to secure the banking facilities granted to an associate (Note 37).

41. SEGMENT INFORMATION

a. Primary segment

The Group is organised into six major operating units (i) trading and manufacturing business (the "trading and manufacturing unit"); (ii) securities & financing related - business (the "securities & financing related unit"); (iii) property development and investment business (the "property development and investment unit"); (iv) information technology related business (the "information technology unit"); (v) media publishing business (the "media unit") and (vi) investment holding and others (the "investment holding and others unit").

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

Analysis by business segment is as follows:

| | 2001 | | | | | | |
|--|---|-------------------------|---|---|--|--|-----------------------|
| | Trading and manufacturing unit \$'000 | Media unit \$'000 | Securities and financing related unit \$'000 | Information technology unit \$'000 | Property development and investment unit \$'000 | Investment holding and others unit \$'000 | Elimination \$'000 |
| | | | | | | | Total \$'000 |
| TURNOVER | | | | | | | |
| Sales to external customers | 1,651,925 | 209,080 | 130,662 | 108,950 | 8,407 | 24 | — |
| Inter-segment sales | — | 11,000 | 7,992 | — | 143 | 14,000 | (33,135) |
| | 1,651,925 | 220,080 | 138,654 | 108,950 | 8,550 | 14,024 | (33,135) |
| OPERATING RESULTS | | | | | | | |
| Segment results | (101,838) | (48,791) | 11,824 | (7,384) | (10,345) | (43,622) | (200,156) |
| Finance costs | | | | | | | (21,275) |
| Share of loss of associates | | | | | | | (21,200) |
| Loss on investment in associates | | | | | | | (35,192) |
| Gain on disposal of subsidiaries | | | | | | | 33 |
| Taxation | | | | | | | (36,588) |
| Loss before minority interests | | | | | | | (314,378) |
| Depreciation and amortisation | 57,082 | 6,402 | 11,011 | 2,244 | 535 | 527 | 77,801 |
| Impairment loss recognised in the income statement | 60,130 | 12,738 | 35,474 | 3,278 | 13,822 | 13,331 | 138,773 |
| OTHER INFORMATION | | | | | | | |
| Segment assets | 1,043,886 | 66,887 | 872,860 | 52,664 | 597,143 | 823,003 | (819,320) |
| Segment liabilities | 537,232 | 338,822 | 510,320 | 26,268 | 477,515 | 7,047 | (819,320) |
| Unallocated liabilities | | | | | | | 262,868 |
| | | | | | | | 1,340,752 |
| Capital expenditure | 22,104 | 2,370 | 10,864 | 7,484 | — | 33 | 42,855 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

a. Primary segment (Continued)

| | 2000 | | | | | | | |
|---|---|-------------------------|---|---|--|--|-----------------------|-----------------------------|
| | Trading and manufacturing unit \$'000 | Media unit \$'000 | Securities and financing related unit \$'000 | Information technology unit \$'000 | Property development and investment unit \$'000 | Investment holding and others unit \$'000 | Elimination \$'000 | Total \$'000 |
| | | | | | | | | (Restated- Notes 2 & 43) |
| TURNOVER | | | | | | | | |
| Sales to external customers | 1,940,023 | 242,319 | 268,024 | 59,915 | 9,623 | 1,432 | — | 2,521,336 |
| Inter-company sales | — | 32,000 | 3,062 | — | — | 14,000 | (49,062) | — |
| | 1,940,023 | 274,319 | 271,086 | 59,915 | 9,623 | 15,432 | (49,062) | 2,521,336 |
| OPERATING RESULTS | | | | | | | | |
| Segment results | 7,308 | (31,707) | 14,038 | (6,528) | (9,479) | (77,842) | | (104,210) |
| Finance costs | | | | | | | | (26,427) |
| Share of loss of associates | | | | | | | | (40,721) |
| Loss on investments in associates | | | | | | | | 31,099 |
| Gain on disposal of subsidiaries | | | | | | | | 51,426 |
| Taxation | | | | | | | | (7,716) |
| Loss before minority interests | | | | | | | | (96,549) |
| Depreciation and amortisation | 66,738 | 7,006 | 7,172 | 1,153 | 261 | 444 | | 82,774 |
| Impairment loss recognised in the income statement | 10,900 | — | 187,975 | 25,987 | 7,339 | 22,279 | | 254,480 |
| OTHER INFORMATION | | | | | | | | |
| Segment assets | 1,286,434 | 90,113 | 871,749 | 36,738 | 531,600 | 898,245 | (793,469) | 2,921,410 |
| Segment liabilities | 652,271 | 303,429 | 430,411 | 12,510 | 358,831 | 6,794 | (793,469) | 970,777 |
| Unallocated liabilities | | | | | | | | 302,454 |
| | | | | | | | | 1,273,231 |
| Capital expenditure | 83,377 | 11,733 | 16,165 | 6,435 | 295 | 138 | | 118,143 |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

b. Secondary segment

Turnover and loss by geographical location is determined mainly on the basis of the location where merchandise or services are delivered. An analysis by geographical location is as follows:

| | 2001 \$'000 | 2000 \$'000 |
|----------------------------|------------------|----------------|
| Turnover | | |
| - United States of America | 1,020,969 | 954,409 |
| - Europe | 324,518 | 558,684 |
| - The PRC and Hong Kong | 612,793 | 767,203 |
| - Japan | 29,651 | 86,203 |
| - Others | 121,117 | 154,837 |
| | 2,109,048 | 2,521,336 |
| Segment results | | |
| - United States of America | 314 | 20,667 |
| - Europe | (13,174) | 14,520 |
| - The PRC and Hong Kong | (178,362) | (137,317) |
| - Japan | (5,997) | (348) |
| - Others | (2,937) | (1,732) |
| | (200,156) | (104,210) |

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

41. SEGMENT INFORMATION (Continued)

b. Secondary segment (Continued)

The Group has business operations in the PRC and Hong Kong. An analysis by geographical location is as follows:

| | 2001 \$'000 | 2000 \$'000 |
|----------------------|----------------|----------------|
| Capital expenditures | | |
| - The PRC | 26,946 | 57,112 |
| - Hong Kong | 15,909 | 61,031 |
| | 42,855 | 118,143 |
| Assets | | |
| - The PRC | 782,841 | 972,469 |
| - Hong Kong | 1,854,282 | 1,948,941 |
| | 2,637,123 | 2,921,410 |

42. SUBSEQUENT EVENT

Subsequent to 31 December 2001, SCIT, a subsidiary of the Group, has entered into agreements with an independent third party on 22 April 2002, to effect a financial restructuring proposal of SCIT. Upon the completion of the above financial restructuring proposal, the independent third party will essentially inject HK\$66 million into SCIT.

43. COMPARATIVE FIGURES

In addition to the prior year adjustments as detailed in Note 2 of the financial statements, certain prior year comparative figures have been reclassified to conform to the current year's presentation.