

Notes to the Financial Statements

For the year ended 31 December 2000

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

Its principal activity is investment holding and those of its subsidiaries are set out in note 12 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Inter-company balances and transactions within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate and is eliminated against reserves immediately on acquisition or amortised on a straight-line basis to the income statement over its estimated useful economic life. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate over the purchase consideration, is credited to reserves.

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

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

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

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful life from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Office equipment, furniture and fittings	10% — 33%
Machinery and equipment	10% — 33%
Motor vehicles	20%

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Intangible assets

Intangible assets comprise business assets acquired and goodwill arising on business combination (other than acquisition of a subsidiary or an associate) and are amortised over their estimated useful life. Business assets include mainly business plans, business contracts, copyrights, other intellectual property rights and customers list.

Long-term investments

Long-term investments include investments in investment securities and finished animated films.

Investment securities held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their values, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

The profit or loss on disposal of investment securities is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

Investments in finished animated films are carried at cost, less provisions for any permanent diminution in value deemed appropriate by the directors and amortisation, where appropriate.

Amortisation is provided to write off the cost of the investments in finished animated films over a period of five years.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, construction expenditure and other direct costs, including interest costs, attributable to the development of the properties. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling the properties.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Sale of animated films is recognised when films are delivered to the customers and title has passed.

Income in respect of telecommunications services provided to customers is recognised when the services are rendered.

Income in respect of internet security solution services includes internet security solution services income and sale of computer hardware and software. Internet security solution services income is recognised in the period when the services are rendered. Sale of computer hardware and software is recognised when goods are delivered and title has passed.

Insurance and management consulting income is recognised when related services are rendered.

Income in respect of corporate events management services is recognised when the events management services are rendered.

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

Investment income is recognised when the Group's right to receive payment is established.

Obligations under finance leases

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

All other leases are classified as operating leases and the annual rentals are recognised as an expense on a straight-line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting year from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Pension costs

Contributions are recognised as an expense as they become payable in accordance with the rules of the scheme.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as expenses on the straight-line basis over the lease terms.

Cash equivalents

Cash equivalents in the consolidated cash flow statement 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.

Related party

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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Sale of animated films	23,473	44,210
Telecommunication services income	63,740	1,035
Internet security solution services income	8,292	—
Insurance and management consulting services income	3,336	—
Corporate events management services income	1,284	—
	<u>100,125</u>	<u>45,245</u>
Other revenue		
Interest income	28,795	995
Income from unlisted investments	66	498
	<u>28,861</u>	<u>1,493</u>
Revenue	<u><u>128,986</u></u>	<u><u>46,738</u></u>

4. OTHER NET INCOME/(EXPENSES)

	Note	Group	
		2000 HK\$'000	1999 HK\$'000
Gain realised from e-KONG venture operations		76,051	—
Gain on disposal of discontinued operations	5	23,210	—
Gain/(Loss) on disposal of subsidiaries		311	(33,673)
Loss on disposal of a jointly controlled entity		—	(11,284)
Others		336	—
		<u><u>99,908</u></u>	<u><u>(44,957)</u></u>

Gain realised from e-KONG venture operations comprised gain on disposal of investment securities.

5. DISCONTINUED OPERATIONS

In June 2000, the Group disposed of its 100% shareholding in Goldmarket Assets Limited and its subsidiaries, including Colorland Animation Productions Limited (collectively the “Goldmarket Group”) to an independent third party. The Goldmarket Group was principally engaged in animation film production. During the year and prior to its disposal, the Goldmarket Group had turnover of HK\$23,473,000 (1999: HK\$44,210,000) and an operating loss of HK\$4,049,000 (1999: HK\$936,000). A profit on disposal of HK\$23,210,000 arose upon the disposal of the Goldmarket Group, being the proceeds of disposal less the carrying amount of its net assets and attributable goodwill. The cash effects of the disposal are set out in note 26.

6. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Group	
	2000	1999
	HK\$'000	HK\$'000
(a) Finance costs		
Finance charges on obligations under finance leases	140	—
(b) Other items		
Amortisation of intangible assets	1,163	—
Amortisation of long-term investments	1,000	3,511
Amount due from a jointly controlled entity waived	—	1,200
Auditors' remuneration	1,000	557
Bad debts written off	42	3,000
Provision for bad debts	1,100	—
Cost of inventories	14,234	21,773
Depreciation	10,508	3,506
Loss on disposal of property, plant and equipment	152	319
Operating lease charges on premises	2,685	3,008
Staff costs	46,228	27,271

7. DIRECTORS' REMUNERATION

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	—	—
Salaries, other emoluments and other benefits in kind	3,960	2,350
	<u>3,960</u>	<u>2,350</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

7. DIRECTORS' REMUNERATION (Cont'd)

No fees or emoluments was paid to the independent non-executive directors during the year (1999: Nil).

In addition to the above emoluments, certain directors were granted share options under the Company's Employee Share Option Scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares" in the Report of the Directors.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of directors were within the following bands:

HK\$	Number of directors	
	2000	1999
Nil	6	4
1 — 1,000,000	—	4
1,500,001 — 2,000,000	1	—
2,000,001 — 2,500,000	1	—
	<u>8</u>	<u>8</u>

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

Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (1999: three) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (1999: two) individuals were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries and other emoluments	<u>3,370</u>	<u>2,840</u>

HK\$	Number of individuals	
	2000	1999
Nil — 1,000,000	1	—
1,000,001 — 1,500,000	2	1
1,500,001 — 2,000,000	—	1
	<u>3</u>	<u>2</u>

8. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

Overseas taxation represents income tax payable in the Peoples' Republic of China and is calculated at the prevailing rate.

The charge comprises:

	Group	
	2000 HK\$'000	1999 HK\$'000
Hong Kong Profits Tax:		
Current year	—	41
Overprovision in respect of previous year	—	(21)
Overseas taxation	<u>739</u>	<u>719</u>
	<u><u>739</u></u>	<u><u>739</u></u>

The major components of deferred taxation not (credited)/provided for the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Excess of tax allowances over depreciation	1,830	187
Tax losses arising:		
Acquisition of a subsidiary	(329)	(2,579)
Current year	<u>(17,623)</u>	<u>(395)</u>
	<u><u>(16,122)</u></u>	<u><u>(2,787)</u></u>

9. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit/(loss) attributable to shareholders includes a profit of the Company amounted to HK\$31,713,000 (1999: loss of HK\$70,989,000) which has been dealt with in the consolidated income statement and a loss of HK\$1,110,000 (1999: Nil) is retained by the associates.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2000

10. EARNINGS/(LOSS) PER SHARE

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net profit/(loss) attributable to shareholders for the purposes of basic earnings/(loss) and diluted earnings per share	<u>1,302</u>	<u>(78,408)</u>
	2000 <i>Number of shares</i>	1999 <i>Number of shares</i>
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	1,503,101,780	<u>681,868,558</u>
Effect of dilutive potential ordinary shares:		
Share options	44,453,645	
Convertible preference shares	<u>37,269,053</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,584,824,478</u>	<u>N/A</u>

The diluted loss per share for 1999 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost					
At 1 January 2000	3,589	487	593	16,523	21,192
Acquisition of a subsidiary	—	—	63	705	768
Additions	86,777	—	1,318	14,296	102,391
Disposals	(477)	—	(55)	(1,372)	(1,904)
Disposal of subsidiaries	(5,492)	(487)	(593)	(14,899)	(21,471)
At 31 December 2000	84,397	—	1,326	15,253	100,976
Depreciation					
At 1 January 2000	1,740	316	374	8,293	10,723
Acquisition of a subsidiary	—	—	3	462	465
Charge for the year	6,850	—	313	3,345	10,508
Disposals	(97)	—	(14)	(406)	(517)
Disposal of subsidiaries	(1,401)	(316)	(374)	(9,161)	(11,252)
At 31 December 2000	7,092	—	302	2,533	9,927
Net book value					
At 31 December 2000	77,305	—	1,024	12,720	91,049
At 31 December 1999	1,849	171	219	8,230	10,469

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2000	—	737	737
Additions	11	1,117	1,128
Disposals	—	(229)	(229)
At 31 December 2000	11	1,625	1,636
Depreciation			
At 1 January 2000	—	348	348
Charge for the year	4	296	300
Disposals	—	(196)	(196)
At 31 December 2000	4	448	452
Net book value			
At 31 December 2000	7	1,177	1,184
At 31 December 1999	—	389	389

12. INTERESTS IN SUBSIDIARIES

	Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost	—	145,696
Provision for permanent diminution in value	—	(136,464)
	—	9,232
Due from subsidiaries	537,034	68,885
	537,034	78,117

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid-up ordinary share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
e-Kong Services Limited (formerly known as Chamford Limited)	British Virgin Islands	US\$1	100%	—	Investment holding
ZONE Group Inc.	Cayman Islands	US\$100	—	100%	Investment holding
ZONE Global Limited (formerly known as TelaPortal Global Limited and Tech Leader Limited)	British Virgin Islands	US\$1	—	100%	Investment holding
ZONE Limited (formerly known as TelaPortal Limited)	Hong Kong	HK\$2	—	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd (formerly known as TelaPortal Singapore Pte Ltd and Charlecote Enterprise Pte Ltd)	Singapore	S\$100,000	—	100%	Provision of telecommunication services
ZONE USA, Inc.	USA	US\$10	—	100%	Provision of telecommunication services
ZONE Telecom, Inc.	USA	US\$10	—	100%	Investment holding
speedinsure Global Limited (formerly known as Cyber Master Limited)	British Virgin Islands	US\$10,000	—	70%	Investment holding
speedinsure.com Limited (formerly known as insure-asia.com Limited)	Hong Kong	HK\$10,000	—	70%	Provision of sales and fulfillment solution

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid-up ordinary share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
speedinsure Singapore Pte Ltd	Singapore	S\$2	—	70%	Provision of sales and fulfillment solution
EventClicks Global Limited (formerly known as EventClicks Limited)	British Virgin Islands	US\$1,000,000	—	100%	Investment holding
EventClicks Limited (formerly known as Charm Linkage Limited)	Hong Kong	HK\$500,000	—	100%	Provision of corporate events management services
EventClicks (Aust) Pty Limited (formerly known as EventSource Asia Pty Limited)	Australia	AU\$2	—	100%	Provision of corporate events management services
EventClicks Singapore Pte Limited (formerly known as Bayridge Enterprises Pte Ltd)	Singapore	S\$2	—	100%	Provision of corporate events management services
magictel.com Limited	Hong Kong	HK\$1,000	—	100%	Provision of telecommunication services
Bayrise Enterprise Pte Ltd.	Singapore	S\$2	—	100%	Provision of telecommunication services
Cardzone Limited (formerly known as Wide East Limited)	Hong Kong	HK\$2	—	100%	Provision of telecommunication services

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid-up ordinary share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
NETdefence Company Limited (formerly known as Polymedia Technology Company Limited)	Hong Kong	HK\$10,000	—	51%	Provision of internet security solution
e-Kong Pillars Holdings Limited (formerly known as Cybernet Climber Limited)	British Virgin Islands	US\$1	100%	—	Investment holding
e-Kong Pillars Limited (formerly known as Cyber Eagle Limited)	British Virgin Islands	US\$1	—	100%	Investment holding
e-Kong Ventures Limited (formerly known as Enrich Investment Holdings Limited)	British Virgin Islands	US\$1	100%	—	Investment holding

The above summary lists the principal subsidiaries of the Company which, in the opinion of the Company's 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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

13. INTANGIBLE ASSETS

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost		
At 1 January	781	—
Additions	42,748	781
At 31 December	43,529	781
Amortisation		
At 1 January	—	—
Charge for the year	1,163	—
At 31 December	1,163	—
Net book value		
At 31 December	42,366	781

Additions for the year include goodwill arisen from business combination (other than acquisition of a subsidiary or an associate) amounted to HK\$34,862,000.

14. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	3	—	—	—
Share of net assets other than goodwill	(1,260)	—	—	—
	(1,257)	—	—	—
Due from associates	13,944	—	9,215	—
	12,687	—	9,215	—

14. INTERESTS IN ASSOCIATES (Cont'd)

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group.

Name of associate	Place of incorporation/ operation	Issued and fully paid-up share capital	Percentage of share capital held by		Principal activities
			Company	Subsidiary	
CIB (Holdings) Limited	British Virgin Islands	US\$1,000	28%	40%	Investment holding
Cyber Insurance Brokers Limited (formerly known as Expert Gain Limited)	Hong Kong	HK\$5,000,000	28%	100%	Insurance broking
Cyber Insurance Brokers (S) Pte Ltd.	Singapore	S\$400,000	28%	100%	Insurance broking

15. LONG-TERM INVESTMENTS

(a) Investment in finished animated films

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cost				
At 1 January	12,374	17,523	—	—
Additions	2,490	10,568	—	—
Write-off	—	(285)	—	—
Provision for diminution in value	—	(15,432)	—	—
Disposal of subsidiaries	(14,864)	—	—	—
At 31 December	—	12,374	—	—
Amortisation				
At 1 January	8,107	4,881	—	—
Charge for the year	1,000	3,511	—	—
Write-off	—	(285)	—	—
Disposal of subsidiaries	(9,107)	—	—	—
At 31 December	—	8,107	—	—
Net book value				
At 31 December	—	4,267	—	—

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

15. LONG-TERM INVESTMENTS (Cont'd)

(b) Investment in investment securities

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At cost less provision:				
Equity securities, unlisted	133,456	778	—	778
Equity securities, listed outside Hong Kong	168,925	—	—	—
	302,381	778	—	778
Total	302,381	5,045	—	778

Market value of the Group's listed investment securities as at the balance sheet date amounted to HK\$169,642,000 (1999: Nil).

16. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
At cost:		
Raw materials	—	201
Work-in-progress	—	394
Finished goods	978	—
	978	595

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade receivables				
From third parties	36,368	6,888	—	—
Other receivables				
Deposits, prepayment and other debtors	37,423	8,394	14,350	2,402
	73,791	15,282	14,350	2,402

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

Included in trade and other receivables are trade debtors (net of provision for bad debts) with the following ageing analysis.

17. TRADE AND OTHER RECEIVABLES (Cont'd)

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	23,735	—
1 to 3 months overdue	10,736	6,888
More than 3 months overdue but less than 12 months overdue	1,897	—
	36,368	6,888

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank balances and cash	26,546	8,149	6,677	2,290
Fixed deposits	317,762	91,726	312,762	91,726
	344,308	99,875	319,439	94,016

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade payables				
To third parties	17,783	2,342	—	—
Other payables				
Accrued charges and other creditors	78,378	11,896	477	1,135
Due to subsidiaries	—	—	5,092	5,470
Due to an associate	1,496	—	1,496	—
Due to a shareholder	—	19	—	19
	97,657	14,257	7,065	6,624

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis.

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	7,244	—
1 to 3 months overdue	8,525	2,342
More than 3 months overdue but less than 12 months overdue	2,014	—
	17,783	2,342

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

20. ISSUED CAPITAL

	2000		1999	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised				
Preference shares of HK\$1 each				
At 1 January and at 31 December	<u>288,929,402</u>	<u>288,929</u>	<u>288,929,402</u>	<u>288,929</u>
Ordinary shares of HK\$0.02 each				
At 1 January	<u>1,500,000,000</u>	<u>30,000</u>	750,000,000	15,000
Increase of ordinary shares	<u>1,500,000,000</u>	<u>30,000</u>	<u>750,000,000</u>	<u>15,000</u>
At 31 December	<u>3,000,000,000</u>	<u>60,000</u>	<u>1,500,000,000</u>	<u>30,000</u>
Total		<u>348,929</u>		<u>318,929</u>
Issued and fully paid				
Preference shares of HK\$1 each				
At 1 January	<u>170,970,968</u>	<u>170,971</u>	170,970,968	170,971
Converted to ordinary shares	<u>(161,290,968)</u>	<u>(161,291)</u>	—	—
At 31 December	<u>9,680,000</u>	<u>9,680</u>	<u>170,970,968</u>	<u>170,971</u>
Ordinary shares of HK\$0.02 each				
At 1 January	<u>1,159,449,380</u>	<u>23,189</u>	518,449,380	10,369
Issue of ordinary shares	<u>230,000,000</u>	<u>4,600</u>	631,000,000	12,620
Converted from preference shares	<u>161,290,968</u>	<u>3,226</u>	—	—
Exercise of share options	<u>9,218,988</u>	<u>184</u>	<u>10,000,000</u>	<u>200</u>
At 31 December	<u>1,559,959,336</u>	<u>31,199</u>	<u>1,159,449,380</u>	<u>23,189</u>
Total		<u>40,879</u>		<u>194,160</u>

20. ISSUED CAPITAL (Cont'd)

- (a) By an ordinary resolution passed at a special general meeting on 1 March 2000, the authorised ordinary share capital of the Company was increased to HK\$60,000,000 by the creation of 1,500,000,000 additional ordinary shares of HK\$0.02 each.
- (b) In January 2000, options were exercised to subscribe for 9,168,988 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$3,850,975.

In February 2000, an aggregate of 72,042,000 preference shares were converted into 72,042,000 ordinary shares of HK\$0.02 each at a premium of HK\$0.05 per share.

In February 2000, the Company placed and issued 30,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.90 per share. The net proceeds of approximately HK\$27,000,000 are being used for providing additional working capital of the Group.

In February 2000, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$3.60 per share. The net proceeds of approximately HK\$705,000,000 are being used for financing expansion of operations and providing additional working capital of the Group.

In March 2000, an aggregate of 89,248,968 preference shares were converted into 89,248,968 ordinary shares of HK\$0.02 each at a premium of HK\$0.05 per share.

In November 2000, options were exercised to subscribe for 50,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$24,500.

All the new ordinary shares issued during the year ranked *pari passu* in all respects with the existing ordinary shares of the Company.

At the balance sheet date, the Group had cash and bank deposits of HK\$412,988,000, which represented mainly the unutilised proceeds generated from the above capital raising exercise. These funds will be used for financing the Group's expansion in the coming years.

- (c) The holders of the preference shares are entitled to convert all or any of the preference shares into fully paid ordinary shares on the basis of one ordinary share of HK\$0.02 each for every HK\$1 in nominal value of preference shares so converted, in accordance with and subject to provisions of the Company's Bye-laws and the conditions in respect of the date of conversion as set out at the back of preference share certificate. In each year the preference shares may be converted on any of the following dates:
 - (i) the date falling 30 days after the date on which of the audited financial statements of the Company for the last preceding accounting period are despatched to the holders of the preference shares; or
 - (ii) the date falling 30 days after the date on which the interim results of the Company in respect of any current accounting period shall be announced; or
 - (iii) such other dates as may be notified in writing by the directors to the holders of the preference shares not less than 30 days before such date.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

20. ISSUED CAPITAL (Cont'd)

In addition, as resolved by the directors on 16 December 1998, the preference shares may be converted every second Wednesday and every last Wednesday of each month provided always that if such date is not a business day then the next business day.

The Company may in accordance with the Companies Act of Bermuda or subject to the provisions of the Company's Bye-laws determine to redeem the relevant shares on any conversion date for a sum equal to (i) the nominal capital paid up or credited as paid up thereon and (ii) a fixed premium equal to five percent of the amount of such nominal capital and (iii) outstanding dividends, out of funds of the Company which would otherwise be available for dividend or distribution to the holders of any class of share or out of the proceeds of a new issue of ordinary shares.

21. SHARE OPTIONS

In accordance with the Company's Employee Share Option Scheme ("the Scheme") which was adopted in a Special General Meeting held on 25 October 1999, the directors of the Company may grant options to eligible employees to subscribe for shares in the Company. Any options granted can be exercised within the period as set out in the rules and regulations for the Scheme. The subscription price is determined by the board of directors and shall not be less than the higher of 80% of the average of the closing market prices of the shares for the five trading days immediately preceding the date of grant or the nominal value of a share.

The summary of movements in share options granted during the year to certain directors and employees of the Group under the Scheme was as follows:

Date of grant	Exercise price HK\$	Number of share options				Outstanding at 31 December 2000
		At 1 January 2000	Granted during the year	Exercised during the year	Lapsed during the year	
25 October 1999	0.42	51,630,223	—	9,168,988	350,000	42,111,235
16 November 1999	0.49	6,495,000	—	50,000	400,000	6,045,000
23 December 1999	0.60	4,100,000	—	—	150,000	3,950,000
3 January 2000	0.69	—	3,025,000	—	—	3,025,000
20 January 2000	0.62	—	800,000	—	800,000	—
24 January 2000	0.68	—	36,335,000	—	—	36,335,000
25 January 2000	0.68	—	2,500,000	—	—	2,500,000
3 March 2000	2.30	—	23,150,000	—	500,000	22,650,000
6 March 2000	2.40	—	50,000	—	50,000	—
28 April 2000	1.00	—	6,275,000	—	300,000	5,975,000
1 June 2000	1.02	—	250,000	—	—	250,000
9 August 2000	0.70	—	1,000,000	—	—	1,000,000
25 October 2000	0.35	—	10,372,274	—	—	10,372,274
		<u>62,225,223</u>	<u>83,757,274</u>	<u>9,218,988</u>	<u>2,550,000</u>	<u>134,213,509</u>

22. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Reserve on consolidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1 January 1999	63,956	(35,133)	6	30,573	—	(175,174)	(115,772)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Release on associates written off	—	36,250	—	(31,660)	—	—	4,590
Goodwill on acquisition of a subsidiary	—	—	—	—	(62,761)	—	(62,761)
Net loss attributable to shareholders	—	—	—	—	—	(78,408)	(78,408)
At 31 December 1999	227,407	1,117	6	(1,087)	(62,761)	(253,582)	(88,900)
Shares issued at premium	912,221	—	—	—	—	—	912,221
Shares issue expenses	(16,894)	—	—	—	—	—	(16,894)
Release on disposal of subsidiaries	—	(1,117)	—	1,087	560	—	530
Exchange difference on translation of foreign subsidiaries	—	(388)	—	—	—	—	(388)
Goodwill on acquisition of further interests in a subsidiary	—	—	—	—	(12)	—	(12)
Goodwill on consolidation	—	—	—	—	(7,122)	—	(7,122)
Net profit attributable to shareholders	—	—	—	—	—	1,302	1,302
At 31 December 2000	<u>1,122,734</u>	<u>(388)</u>	<u>6</u>	<u>—</u>	<u>(69,335)</u>	<u>(252,280)</u>	<u>800,737</u>
Company							
At 1 January 1999	63,956	—	6	—	—	(181,506)	(117,544)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Net loss attributable to shareholders	—	—	—	—	—	(70,989)	(70,989)
At 31 December 1999	227,407	—	6	—	—	(252,495)	(25,082)
Shares issued at premium	912,221	—	—	—	—	—	912,221
Shares issue expenses	(16,894)	—	—	—	—	—	(16,894)
Net profit attributable to shareholders	—	—	—	—	—	31,713	31,713
At 31 December 2000	<u>1,122,734</u>	<u>—</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>(220,782)</u>	<u>901,958</u>

There were no reserves available to distribution as at 31 December 2000 (1999: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

23. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit/(Loss) before taxation	3,995	(75,170)
Interest income	(28,795)	(995)
Income from unlisted investments	(66)	(498)
Interest on obligations under finance leases	140	—
Depreciation	10,508	3,506
Loss on disposal of property, plant and equipment	152	319
Share of results of associates	1,110	—
Amortisation of long-term investments	1,000	3,511
Bad debts written off	42	3,000
Provision for bad debts	1,100	—
(Gain)/Loss on disposal of subsidiaries	(23,521)	33,673
Loss on disposal of a jointly controlled entity	—	11,284
Gain on disposal of investment securities	(76,051)	—
Loss on associates written off	—	4,590
Provision for diminution in value of long-term investments	8,904	15,432
Amount due from a jointly controlled entity waived	—	1,200
Amortisation of intangible assets	1,163	—
Changes in working capital:		
Properties held for sale	(3,734)	—
Inventories	(2,399)	479
Trade and other receivables	(70,275)	(7,071)
Trade and other payables	90,114	(1,153)
Net cash outflow from operating activities	(86,613)	(7,893)

24. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group purchased certain investment securities for an aggregate consideration equivalent to HK\$19,724,000, in cash, from an independent third party. The investment securities were subsequently disposed of at a consideration equivalent to HK\$95,775,000 which was settled by issue of shares by an independent third party.
- (b) Consideration for the disposal of subsidiaries that occurred during the year comprises of investment securities of HK\$30,000,000. Further details of the disposal are set out in note 26.
- (c) The Group entered into finance lease arrangements in respect of office equipment with a total capital value at the inception of the arrangements of HK\$794,000.

25. PURCHASE OF A SUBSIDIARY

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net liabilities acquired:		
Property, plant and equipment	303	1,539
Trade and other receivables	808	435
Cash and cash equivalents	2,219	739
Trade and other payables	<u>(5,203)</u>	<u>(6,821)</u>
	(1,873)	(4,108)
Goodwill	<u>7,122</u>	<u>62,761</u>
	<u><u>5,249</u></u>	<u><u>58,653</u></u>
Satisfied by:		
Cash	5,000	—
Shares allotted	—	55,200
Direct costs incurred	<u>249</u>	<u>3,453</u>
	<u><u>5,249</u></u>	<u><u>58,653</u></u>

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash consideration	5,000	—
Cash and cash equivalents acquired	(2,219)	(739)
Cash payment for direct costs	<u>249</u>	<u>3,453</u>
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u><u>3,030</u></u>	<u><u>2,714</u></u>

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2000

26. DISPOSAL OF SUBSIDIARIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	10,219	—
Long-term investments	5,757	—
Inventories	2,016	—
Trade and other receivables	10,733	—
Cash and cash equivalents	5,068	—
Trade and other payables	(12,952)	—
Taxation	(616)	—
Minority interests	(14,276)	—
Exchange reserve	(1,117)	—
Other capital reserve	1,087	—
Reserve on consideration	560	—
Unamortised goodwill written off	—	33,673
	<u>6,479</u>	<u>33,673</u>
Gain/(Loss) on disposal of subsidiaries	<u>23,521</u>	<u>(33,673)</u>
	<u><u>30,000</u></u>	<u><u>—</u></u>

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash consideration	—	—
Cash and cash equivalents disposed	<u>5,068</u>	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>5,068</u></u>	<u><u>—</u></u>

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 1999	74,325	—	10,739
Cash inflow from financing	121,071	—	3
Shares issued for non-cash consideration	55,200	—	—
Share of profit for the year	—	—	2,499
Dividend paid to minority shareholders	—	—	(800)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	250,596	—	12,441
Cash inflow/(outflow) from financing	742,046	(212)	—
Inception of finance leases arrangements	—	794	—
Share of profit for the year	—	—	1,954
Disposal of subsidiaries	—	—	(14,276)
Conversion of preference shares	161,291	—	—
	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>1,153,933</u>	<u>582</u>	<u>119</u>

28. COMMITMENTS

Commitments under operating leases

At the balance sheet date, the portion of outstanding commitments in respect of land and buildings not provided for under non-cancellable operating leases which are payable in the following year is as follow:

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Operating leases which expire:				
Within one year	2,939	1,786	914	893
In the second to fifth years inclusive	2,984	1,350	370	675
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>5,923</u>	<u>3,136</u>	<u>1,284</u>	<u>1,568</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2000

28. COMMITMENTS (Cont'd)

Capital expenditure commitments

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Authorised but not contracted for	<u>6,235</u>	<u>19,858</u>
Contracted but not provided for	<u>—</u>	<u>9,818</u>

29. DEFERRED TAXATION

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	2,187	357
Tax losses carried forward	<u>(28,421)</u>	<u>(10,469)</u>
	<u>(26,234)</u>	<u>(10,112)</u>

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

30. RELATED PARTY TRANSACTION

During the year, the Group entered into an agreement with Mandarin Communications Limited ("Mandarin"), a subsidiary of SUNDAY Communications Limited ("SUNDAY"). In accordance with the agreement, Mandarin referred its customers of international telecommunication service to ZONE Limited, a subsidiary of the Company, to make international calls. The referral fee for acquisition of these customers amounted to HK\$7,574,000 and was recognised as an intangible asset.

Mr. Richard John Siemens, the Chairman and Executive Director of the Company, is also an Executive Director of SUNDAY.

31. COMPARATIVE FIGURES

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