

NOTES TO THE FINANCIAL STATEMENTS

1. CHANGE IN ACCOUNTING POLICY

In prior year, goodwill was recognised as an asset and amortised using the straight-line method over the period of benefit subject to a maximum of twenty years. Upon a review of the nature of the Group's business, the directors determined during the year that it would be more appropriate for the Group to adopt the accounting policy to write off goodwill to reserves in the year of acquisition. As a result of the new accounting policy, the Group's loss for the year attributable to shareholders has decreased by HK\$29,579,000 (1999: HK\$4,910,000) and the net assets as at the year end have decreased by HK\$467,532,000 (1999: HK\$497,111,000). The new accounting policy has been adopted retrospectively. Comparative figures for the nine months ended 31 December 1999 were restated to reflect the change in accounting policy.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice 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 is set out below.

(A) BASIS OF CONSOLIDATION

- i. The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. All material inter-company transactions and balances are eliminated on consolidation.
- ii. Results of new subsidiaries are included from the respective dates of acquisition. Results of subsidiaries disposed of during the year are included up to the respective dates of disposal.
- iii. Goodwill represents the excess of purchase consideration over the fair values of net assets of subsidiaries, associates and joint ventures at the date of acquisition and is written off to reserves in the year of acquisition. Upon disposal, the attributable amount of goodwill previously written off to reserves is taken to income statement.

(B) SUBSIDIARIES

A subsidiary is a company in which the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**(C) ASSOCIATES**

An associate is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the post acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates.

In the Company's balance sheet the investments in associates are stated at cost less provision, if necessary, for any permanent diminution in value. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(D) JOINT VENTURES

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

(E) INVESTMENT SECURITIES

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline of a permanent nature has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

(F) OTHER INVESTMENTS

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of their investments are recognised in the income statement. Profits and losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(G) MARKETABLE SECURITIES

Marketable securities are stated at market value ruling at the balance sheet date. Unrealised gains and losses are dealt with in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(H) PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is calculated to write off the cost or valuation of property, plant and equipment in equal annual instalments over the period of their estimated useful working lives on the following bases:

Leasehold land and buildings:	Over the remaining term of the lease
Leasehold improvements:	16.7% - 20% p.a.
Furniture, fixtures and equipment:	16.7% - 33.3% p.a.
Communications equipment:	16.7% p.a.
Swimming pool:	2% p.a.
Motor vehicles:	30% - 33.3% p.a.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of property, plant and equipment other than land and buildings is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. A subsequent revaluation surplus is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the income statement.

Upon the disposal of revalued property, plant and equipment, the relevant portion of the revaluation reserve realised in respect of the previous valuations is credited directly to the retained profits account.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**(I) INVESTMENT PROPERTIES**

Investment properties are those properties which are income producing and held on a long term basis for their investment potential. They are included in the balance sheet at their open market value on the basis of annual professional valuations. Movements in the values of investment properties are dealt with in the investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit is charged to the income statement as incurred. On disposal of an investment property, related revaluation surpluses or deficits previously taken to the revaluation reserve account are transferred to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years since the valuation takes into account the state of each property at the date of valuation.

(J) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

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

(K) 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. Payments made under operating leases are charged to the income statement on the straight-line basis over the lease terms.

(L) FOREIGN CURRENCY TRANSLATION

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

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

(M) CASH EQUIVALENTS

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.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(N) DEFERRED TAXATION

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

(O) TRADE RECEIVABLES

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(P) RELATED PARTIES

Two 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.

(Q) REVENUE RECOGNITION

- i. Provision of telecommunications services
Revenue from telecommunications services, comprising bureau services, proprietary services and carrier operations, are recognised as the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers.
- ii. Provision of data bureau services
Revenue from data bureau services using the telecommunication network are recognised as the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers.
- iii. Recreational club operation income
Revenue is recognised when goods are delivered or services are rendered.
- iv. Trading of marketable securities
Revenue from the sale of marketable securities is recognised upon execution of a sale/purchase trading order. Revenue also includes unrealised gains and losses on marketable securities carried at market value.
- v. Dividend income
Dividend income is recognised when the Group's right to receive payment is established.
- vi. Service income
Revenue from sales of services is recognised when the services are rendered.
- vii. Interest income
Interest income is recognised on a time proportion basis on the principal outstanding and at the applicable rate.

3. REVENUE AND TURNOVER

The Group's principal activities are provision of telecommunications services, provision of data bureau services and e-commerce enabling technologies via the Internet, the operation of recreational clubs, securities trading and investment holding. Revenue recognised during the year/period is as follows:

	year ended 31/12/2000 HK\$'000	9 months ended 31/12/1999 HK\$'000
Turnover		
Provision of telecommunications services	634,123	131,862
Provision of data bureau services	150,051	63,182
Recreational club operation	27,585	19,642
Trading of marketable securities	–	142
Dividend income	8,658	4,072
Interest income	57,061	4,276
Provision of e-commerce enabling technologies	691	–
	878,169	223,176
Other revenue		
Unrealised (losses)/gains on marketable securities	(2,532)	7,888
Gain on disposal of a subsidiary in prior year	7,765	–
Exchange gains	–	295
Others	945	1,644
	6,178	9,827
	884,347	233,003

During the year, the Group entered into a settlement agreement with the purchasers of a subsidiary which was disposed of in the previous year. Pursuant to the settlement agreement, the Group negotiated additional consideration amounting to HK\$7,765,000 which was received in January 2000.

4. LOSS FROM OPERATIONS

Consolidated operating loss is stated after charging:

	year ended 31/12/2000 HK\$'000	9 months ended 31/12/1999 HK\$'000
Auditors' remuneration	1,228	452
Amortisation of license rights	7,615	–
Cost of inventories sold	4,622	2,971
Exchange losses	3,712	256
Deficit on revaluation of investment properties	1,000	–
Deficit on revaluation of land and buildings	52,961	–
Depreciation on property, plant and equipment	28,150	15,236
Directors' remuneration	5,730	3,404
Loss on disposal of plant and equipment	1,989	–
Operating lease charges on land and buildings	2,888	3,122
Provision for diminution in value of listed investment securities	69,508	–
Provision for diminution in value of unlisted investment securities	35,743	–
Provision for impairment of license rights	21,310	–
Provision for diminution in value of and non-recovery of loans to associates	5,563	–
Provision for diminution in value of and non-recovery of loans to jointly controlled entities	15,274	–
Provision for non-recoverable deposits and other receivable	13,628	–
Staff costs	62,241	21,882
Unrealised losses on marketable securities and other investments	2,926	1,637

5. FINANCE COSTS

	year ended 31/12/2000 HK\$'000	9 months ended 31/12/1999 HK\$'000
Interest on bank loans and overdrafts wholly repayable within 5 years	6,033	4,003
Factoring fee	2,025	1,598
Interest on convertible bonds	3,350	872
	11,408	6,473

6. TAXATION

	year ended 31/12/2000 HK\$'000	9 months ended 31/12/1999 HK\$'000
Hong Kong profits tax		
Current year	342	874
Overprovision in prior years	(2,121)	–
Deferred taxation (note 22a)	1,026	286
	(753)	1,160
Overseas taxation		
Current year	412	282
Underprovision in prior years	105	–
	517	282
	(236)	1,442

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

7. INTANGIBLE ASSETS

	Group	
	31/12/2000 HK\$'000	31/12/1999 HK\$'000
License rights		
Additions	28,925	–
Amortisation	(7,615)	–
Provision for impairment	(21,310)	–
	–	–

8. INVESTMENT SECURITIES

	Group		Company	
	31/12/2000	31/12/1999	31/12/2000	31/12/1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at cost				
Listed in Hong Kong	228,900	–	228,900	–
Listed outside Hong Kong	76,388	–	–	–
	305,288	–	228,900	–
Unlisted	35,743	15,468	–	–
	341,031	15,468	228,900	–
Provision for diminution in value	(105,251)	–	(2,963)	–
Total	235,780	15,468	225,937	–
Market value of listed securities	235,729	–	225,937	–

At 31 December 2000 the carrying amount of interests in the following company exceeded 10% of the total assets of the Group and the Company:-

Name	Place of incorporation	Class of shares	Percentage holding held by	
			the Group	held by the Company
AcrossAsia Multimedia Limited	Cayman Islands	Ordinary	1.43%	1.43%

9. OTHER INVESTMENTS

	Group	
	31/12/2000	31/12/1999
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at fair value	2,481	3,704
Market value of listed securities	2,481	3,704