# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and land and buildings, and the marking to market of certain investments in securities.

### (c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)).

### (d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Associates and jointly controlled entities (continued)

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(j)).

### (e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(j)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

In respect of acquisition of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Goodwill (continued)

Negative goodwill arising on acquisition of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

### (f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entities are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

**1 SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**(f) Other investments in securities** (continued)

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as short term investments when they were acquired principally for the purpose of generating a profit from short term fluctuations in price.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

**(g) Fixed assets**

(i) Fixed assets are carried in the balance sheet on the following bases:

— investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

— land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(i)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

— plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).

(ii) Changes arising on the revaluation of investment properties and land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement if, and to the extent that, it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement if, and to the extent that, a deficit on revaluation in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the income statement.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Fixed assets (continued)

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For land and buildings, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

### (h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives as follows:

— leasehold land and buildings are depreciated on a straight-line basis over the remaining term of the lease;

— other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of remaining term of the lease and 5 - 6 years |
| Furniture, fixtures and equipment | 3 - 6 years |
| Communications equipment | 6 years |
| Motor vehicles | 3 years |

### (j) Impairment of assets

The following assets are reviewed at each balance sheet date for any indications of impairment and/or to evaluate the appropriateness of any impairment loss provision previously made:

— property, plant and equipment (other than properties carried at revalued amounts);

— investments in subsidiaries, associates and jointly controlled entities; and

— goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, impairment loss is recognised to the extent of the excess of the carrying amount over its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Impairment of assets (continued)

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which reversals are recognised.

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase 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 necessary to make the sale.

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.

### (l) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

### (n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Telecommunications and data bureau services

Revenue from telecommunications and data bureau services, comprising proprietary services and carrier operations, are recognised when the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers to the extent of the amounts expected to be received.

Revenue received from certain international telecommunications carriers is subject to clawback arrangements, whereby the originating/transit international telecommunications carriers may clawback amounts previously paid if subsequently they do not receive the corresponding payments from the end customers/other intermediate carriers respectively. Actual and potential clawbacks are taken into consideration in calculating the amount of revenue to be recognised.

**1 SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**(o) Revenue recognition** (continued)

(ii) Recreational club operation

Entrance fees are recognised when the application for club membership is accepted and no significant uncertainty as to collectability exists. Annual subscription fees are recognised over the relevant period of the membership. Revenue from the provision of club facilities, catering and other services is recognised when goods are delivered or services are rendered.

(iii) Consulting and other services

Revenue from the provision of consulting and other services is recognised when the relevant services have been provided and the Group's right to receive payment is established.

(iv) Dividends

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

**(p) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results and balance sheet items of foreign enterprises are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of exchange differences which relates to that foreign enterprise is included in the calculation of the profit or loss on disposal.

**(q) Retirement costs**

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and defined contribution provident fund scheme and retirement costs in respect of overseas employees according to local requirements are charged to the income statement when incurred.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## 2 TURNOVER

The principal activities of the Group are provision of telecommunications services, provision of data bureau services, operation of recreational clubs, and investment holding. The amount of each significant category of revenue recognised in turnover is as follows:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| Telecommunications and data bureau services | **349,980** | 784,174 |
| Recreational club operation | **26,937** | 27,585 |
| Dividend income | **6,656** | 8,658 |
| Interest income | **35,877** | 57,061 |
| e-commerce enabling technologies | **—** | 691 |
| | **419,450** | 878,169 |

## 3 OTHER REVENUE/OTHER NET LOSS

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| **Other revenue** | | |
| Consulting services fees | **10,000** | — |
| Others | **709** | 945 |
| | **10,709** | 945 |
| **Other net loss** | | |
| Net realised and unrealised loss on investments in securities | **174,797** | 108,177 |
| Additional consideration received from disposal of a subsidiary in prior year | **—** | (7,765) |
| Net loss on disposal of fixed assets | **2,409** | 1,989 |
| Others | **(52)** | — |
| | **177,154** | 102,401 |

## 4 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | **2001** | 2000 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **(a) Finance costs:** | | |
| Interest on bank loans and overdrafts | **2,826** | 6,033 |
| Factoring fees | **191** | 2,025 |
| Interest on convertible bonds | **2,469** | 3,350 |
| | **5,486** | 11,408 |
| **(b) Other items:** | | |
| Cost of inventories sold | **3,757** | 4,622 |
| Depreciation | **13,961** | 28,150 |
| Auditors' remuneration | **1,232** | 1,228 |
| Amortisation of licence rights | **—** | 7,615 |
| Staff costs, including directors' remuneration (including retirement costs of $1,344,000 (2000: $473,000)) | **54,505** | 67,971 |
| Exchange loss | **313** | 3,712 |
| Deficit on revaluation of investment properties | **400** | 1,000 |
| Deficit on revaluation of land and buildings | **16,058** | 52,961 |
| Operating lease charges on land and buildings | **5,984** | 2,888 |
| Provision for impairment of licence rights | **—** | 21,310 |
| Provision for diminution in value of and non-recoverable amounts due from associates | **1,707** | 5,563 |
| Provision for diminution in value of and non-recoverable amounts due from jointly controlled entities | **2,904** | 15,274 |
| Provision for non-recoverable deposits and other receivables | **4,705** | 13,628 |
| Impairment loss on fixed assets | **198** | — |

## 5 TAXATION

### (a) Taxation in the consolidated income statement represents:

| | **2001** | 2000 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Provision for Hong Kong Profits Tax for the year | **—** | 342 |
| Over-provision in respect of prior years | **(373)** | (2,121) |
| | **(373)** | (1,779) |
| Overseas taxation | **215** | 412 |
| (Over)/under-provision in respect of prior years | **(244)** | 105 |
| Deferred taxation (note 25(a)) | **(1,220)** | 1,026 |
| | **(1,622)** | (236) |

No provision for Hong Kong Profits Tax has been made for the year as the Group did not earn profit subject to Hong Kong Profits Tax during 2001. The provision for Hong Kong Profits Tax for 2000 is calculated at 16% of the estimated assessable profits for the year ended 31 December 2000. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant countries.

### (b) Taxation in the balance sheet represents:

| | **The Group** | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| Provision for Hong Kong Profits Tax for the year | **—** | 342 |
| Provision for overseas taxation | **215** | 412 |
| Overseas tax paid | **(249)** | (491) |
| Balance of tax provision relating to prior years | **5,495** | 5,835 |
| | **5,461** | 6,098 |

## 6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

| | **2001** | 2000 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Fees | **152** | 269 |
| Other emoluments paid to executive directors: | | |
| — Salaries and other emoluments | **5,997** | 5,436 |
| — Retirement scheme contributions | **48** | 25 |
| | **6,197** | 5,730 |

Included in the directors' remuneration were fees of $40,000 (2000: $160,000) paid to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme approved in 1997. 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. No options were granted or exercised during the year.

The remuneration of the directors is within the following bands:

| | **2001** | 2000 |
|---|---|---|
| | **Number of directors** | Number of directors |
| $Nil - $1,000,000 | **6** | 8 |
| $1,000,001 - $1,500,000 | **2** | 2 |
| $1,500,001 - $2,000,000 | **—** | 1 |
| $2,500,001 - $3,000,000 | **1** | — |

In the year ended 31 December 2001, none of the directors waived directors' fees (2000: one director waived $13,000).

## 7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 3 (2000: 2) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other 2 (2000: 3) individuals are as follows:

| | **2001** | 2000 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Salaries and other emoluments | **3,120** | 4,886 |
| Retirement scheme contributions | **12** | — |
| | **3,132** | 4,886 |

The emoluments of the 2 (2000: 3) individuals with the highest emoluments are within the following bands:

| | **2001 Number of individuals** | 2000 Number of individuals |
|---|---|---|
| $1,500,001 - $2,000,000 | **2** | 3 |

## 8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $669,848,000 (2000: $237,502,000) which has been dealt with in the financial statements of the Company.

## 9 LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $197,696,000 (2000 (restated): loss of $677,621,000) and the weighted average of 1,650,658,000 ordinary shares (2000: 1,489,514,000 shares) in issue during the year.

### (b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2001 and 2000 is the same as the basic loss per share as the exercise of outstanding share options and the conversion of the convertible bonds in full would have an anti-dilutive effect on the loss per share.

## 10 IMPAIRMENT LOSS ON GOODWILL

Following the requirements of Statement of Standard Accounting Practice 31 "Impairment of Assets", the directors have assessed the recoverable amount of the goodwill and consider that there was an impairment loss of $473,061,000 as at 31 December 2000, which has been recognised as an expense in the consolidated income statement for the year ended 31 December 2000 as a prior year adjustment, according to the transitional provisions under Statement of Standard Accounting Practice 30 "Business Combinations". Consequently the Group's loss for the year ended 31 December 2000 has been increased by $473,061,000. The Group's net assets at 31 December 2001 and 2000 are not affected as the goodwill has already been set-off against reserves in prior years.

## 11 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

**Business segments**

The Group comprises the following main business segments:

*Telecommunications and data bureau services:* the provision of telecommunications services and data bureau services

*Recreational club operation:* the provision of recreational facilities and catering services

*Investment holding and trading of securities:* the holding and trading of investments for short term and long term investment returns

*e-commerce enabling technologies:* the provision of e-commerce enabling technologies

## 11 SEGMENT REPORTING (CONTINUED)

### Business segments (continued)

| | Telecommunications and data bureau services | | Recreational club operation | | Investment holding and trading of securities | | e-commerce enabling technologies | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 restated |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Turnover from external customers | **349,980** | 784,174 | **26,937** | 27,585 | **42,533** | 65,719 | **—** | 691 | **419,450** | 878,169 |
| Other revenue | **199** | 605 | **291** | 169 | **180** | 171 | **10,039** | — | **10,709** | 945 |
| Segment revenue | **350,179** | 784,779 | **27,228** | 27,754 | **42,713** | 65,890 | **10,039** | 691 | **430,159** | 879,114 |
| Segment result | **(5,305)** | 42,564 | **(13,123)** | (25,179) | **(137,974)** | 59,938 | **(11,934)** | (201,832) | **(168,336)** | (124,509) |
| Other group expenses | | | | | | | | | **(3,016)** | (12,134) |
| Deficit on revaluation of land and buildings | | | | | | | | | **(16,058)** | (52,961) |
| Deficit on revaluation of investment properties | | | | | | | | | **(400)** | (1,000) |
| Loss from operations | | | | | | | | | **(187,810)** | (190,604) |
| Finance costs | | | | | | | | | **(5,486)** | (11,408) |
| Share of profit less losses of associates | **315** | (432) | **—** | — | **90** | (20) | **—** | — | **405** | (452) |
| Share of losses of jointly controlled entities | **—** | — | **—** | — | **—** | — | **(6,427)** | (11,541) | **(6,427)** | (11,541) |
| Impairment loss on goodwill | | | | | | | | | **—** | (473,061) |
| Taxation | | | | | | | | | **1,622** | 236 |
| Minority interests | | | | | | | | | **—** | 9,209 |
| Loss attributable to shareholders | | | | | | | | | **(197,696)** | (677,621) |

## 11 SEGMENT REPORTING (CONTINUED)

### Business segments (continued)

| | Telecommunications and data bureau services | | Recreational club operation | | Investment holding and trading of securities | | e-commerce enabling technologies | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Depreciation and amortisation for the year | **6,093** | 6,354 | **6,671** | 20,552 | **10** | 46 | **1,187** | 8,813 | **13,961** | 35,765 |
| Impairment loss for the year | **—** | — | **—** | — | **—** | — | **198** | 21,309 | **198** | 21,309 |
| Significant non-cash expenses (other than depreciation and amortisation) | **2,875** | 7,534 | **—** | — | **174,815** | 5,907 | **4,137** | 117,589 | **181,827** | 131,030 |
| Segment assets | **156,386** | 124,875 | **174,458** | 198,102 | **856,279** | 1,244,707 | **2,001** | 15,915 | **1,189,124** | 1,583,599 |
| Interest in associates and jointly controlled entities | **—** | 3,133 | **—** | — | **4,636** | 6,476 | **—** | — | **4,636** | 9,609 |
| Unallocated assets | | | | | | | | | **3,600** | 4,000 |
| Total assets | | | | | | | | | **1,197,360** | 1,597,208 |
| Segment liabilities | **75,472** | 91,650 | **32,730** | 34,130 | **2,062** | 1,575 | **1,290** | 13,759 | **111,554** | 141,114 |
| Unallocated liabilities | | | | | | | | | **52,242** | 224,595 |
| Total liabilities | | | | | | | | | **163,796** | 365,709 |
| Capital expenditure incurred during the year: | | | | | | | | | | |
| — in respect of investments | **54,460** | — | **—** | — | **85,329** | 228,900 | **—** | 125,525 | **139,789** | 354,425 |
| — in respect of fixed assets | **4,017** | 5,456 | **406** | 1,719 | **76** | 17 | **117** | 5,909 | **4,616** | 13,101 |
| | **58,477** | 5,456 | **406** | 1,719 | **85,405** | 228,917 | **117** | 131,434 | **144,405** | 367,526 |

## 11 SEGMENT REPORTING (CONTINUED)

### Geographical segments

The Group's business is conducted on a worldwide basis, in six principal economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Hong Kong SAR | | PRC (excluding Hong Kong SAR) | | Japan | | Other Asia Pacific regions | | Europe | | North America | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Revenue from external customers | **70,679** | 95,541 | **2,583** | 2,704 | **139,371** | 292,981 | **29,783** | 20,833 | **104,229** | 227,515 | **64,698** | 204,934 | **8,107** | 33,661 | **419,450** | 878,169 |
| Segment assets | **990,425** | 1,471,231 | **87,803** | 71,275 | **—** | — | **35,813** | 8,314 | **1,136** | 21,118 | **79,242** | 9,983 | **2,941** | 15,287 | **1,197,360** | 1,597,208 |
| Capital expenditure incurred during the year: | | | | | | | | | | | | | | | | |
| — in respect of investments | **—** | 228,900 | **34,154** | — | **—** | — | **30,000** | — | **—** | — | **75,635** | 125,525 | **—** | — | **139,789** | 354,425 |
| — in respect of fixed assets | **3,902** | 11,774 | **14** | 337 | **—** | — | **631** | 436 | **69** | 256 | **—** | — | **—** | 298 | **4,616** | 13,101 |
| | **3,902** | 240,674 | **34,168** | 337 | **—** | — | **30,631** | 436 | **69** | 256 | **75,635** | 125,525 | **—** | 298 | **144,405** | 367,526 |

## 12 FIXED ASSETS

### (a) The Group

| | Land and buildings $'000 | Leasehold improvements $'000 | Furniture, fixtures and equipment $'000 | Communications equipment $'000 | Motor vehicles $'000 | Sub-total $'000 | Investment properties $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2001 | 192,911 | 2,644 | 21,966 | 40,495 | 2,502 | 260,518 | 4,000 | 264,518 |
| Exchange adjustments | – | 5 | (116) | (2,514) | (29) | (2,654) | – | (2,654) |
| Additions | – | 1,880 | 1,446 | 523 | 767 | 4,616 | – | 4,616 |
| Deficit on revaluation | (22,911) | – | – | – | – | (22,911) | (400) | (23,311) |
| Disposals | – | (1,351) | (7,322) | (866) | (750) | (10,289) | – | (10,289) |
| **At 31 December 2001** | **170,000** | **3,178** | **15,974** | **37,638** | **2,490** | **229,280** | **3,600** | **232,880** |
| **Representing:** | | | | | | | | |
| Cost | – | 3,178 | 15,974 | 37,638 | 2,490 | 59,280 | – | 59,280 |
| Valuation - 31 December 2001 | 170,000 | – | – | – | – | 170,000 | 3,600 | 173,600 |
| | **170,000** | **3,178** | **15,974** | **37,638** | **2,490** | **229,280** | **3,600** | **232,880** |
| **Aggregate amortisation and depreciation:** | | | | | | | | |
| At 1 January 2001 | 1,087 | 999 | 16,377 | 22,214 | 2,192 | 42,869 | – | 42,869 |
| Exchange adjustments | – | 2 | (110) | (1,300) | (30) | (1,438) | – | (1,438) |
| Charge for the year | 5,766 | 534 | 2,189 | 5,117 | 355 | 13,961 | – | 13,961 |
| Written back on revaluation | (6,853) | – | – | – | – | (6,853) | – | (6,853) |
| Written back on disposals | – | (257) | (6,505) | (321) | (750) | (7,833) | – | (7,833) |
| Impairment loss | – | – | – | 198 | – | 198 | – | 198 |
| **At 31 December 2001** | **–** | **1,278** | **11,951** | **25,908** | **1,767** | **40,904** | **–** | **40,904** |
| **Net book value:** | | | | | | | | |
| **At 31 December 2001** | **170,000** | **1,900** | **4,023** | **11,730** | **723** | **188,376** | **3,600** | **191,976** |
| At 31 December 2000 | 191,824 | 1,645 | 5,589 | 18,281 | 310 | 217,649 | 4,000 | 221,649 |

## 12 FIXED ASSETS (CONTINUED)

### (b) The Company

| | Land and buildings *$'000* | Furniture, fixtures and equipment *$'000* | Motor vehicles *$'000* | Sub-total *$'000* | Investment properties *$'000* | Total *$'000* |
|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | |
| At 1 January 2001 | 120,000 | 2,124 | 526 | 122,650 | 4,000 | 126,650 |
| Deficit on revaluation | — | — | — | — | (400) | (400) |
| Disposals | — | (2,121) | (526) | (2,647) | — | (2,647) |
| **At 31 December 2001** | **120,000** | **3** | **—** | **120,003** | **3,600** | **123,603** |
| **Representing:** | | | | | | |
| Cost | — | 3 | — | 3 | — | 3 |
| Valuation - 31 December 2001 | 120,000 | — | — | 120,000 | 3,600 | 123,600 |
| | **120,000** | **3** | **—** | **120,003** | **3,600** | **123,603** |
| **Aggregate amortisation and depreciation:** | | | | | | |
| At 1 January 2001 | — | 2,084 | 526 | 2,610 | — | 2,610 |
| Charge for the year | 2,526 | 11 | — | 2,537 | — | 2,537 |
| Written back on revaluation | (2,526) | — | — | (2,526) | — | (2,526) |
| Written back on disposals | — | (2,094) | (526) | (2,620) | — | (2,620) |
| **At 31 December 2001** | **—** | **1** | **—** | **1** | **—** | **1** |
| **Net book value:** | | | | | | |
| **At 31 December 2001** | **120,000** | **2** | **—** | **120,002** | **3,600** | **123,602** |
| At 31 December 2000 | 120,000 | 40 | — | 120,040 | 4,000 | 124,040 |

**12 FIXED ASSETS** (CONTINUED)

**(c) The analysis of net book value of properties is as follows:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| In Hong Kong under medium-term lease | **123,600** | 125,824 | **123,600** | 124,000 |
| In the People's Republic of China under medium-term lease | **50,000** | 70,000 | **—** | — |
| | **173,600** | 195,824 | **123,600** | 124,000 |

Investment properties of the Group and the Company were revalued at 31 December 2001 by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, on an open market value basis. The revaluation deficit of $400,000 (2000: $1,000,000) has been charged to the income statement.

The Group's and the Company's land and buildings held for own use were revalued at 31 December 2001 by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, on an open market value basis. The net revaluation deficit of $16,058,000 for the Group was charged to the consolidated income statement (2000: deficit of $446,945,000, of which $365,467,000 was offset against revaluation reserve, $28,517,000 was absorbed by minority interests, and $52,961,000 was charged to the consolidated income statement). The revaluation surplus of $2,526,000 for the Company was credited to the income statement (2000: deficit of $271,583,000, of which $251,398,000 was offset against revaluation reserve and $20,185,000 was charged to the income statement).

The carrying amount of the land and buildings held for own use by the Group and the Company at 31 December 2001 would have been $143,956,000 (2000: $149,881,000) and $35,263,000 (2000: $36,038,000) respectively had they been carried at cost less accumulated depreciation.

## 13 INTEREST IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| Unlisted shares, at cost | **12,700** | 12,700 |
| Amounts due from subsidiaries | **1,005,071** | 847,738 |
| | **1,017,771** | 860,438 |
| Less: impairment loss | **(829,694)** | (290,613) |
| | **188,077** | 569,825 |

Details of principal subsidiaries are shown in pages 63 and 64.

## 14 INTEREST IN ASSOCIATES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Unlisted shares, at cost | **—** | — | **1** | 1 |
| Share of net assets | **2,288** | 2,142 | **—** | — |
| Amounts due from associates | **12,967** | 16,379 | **4,435** | 6,365 |
| | **15,255** | 18,521 | **4,436** | 6,366 |
| Less: impairment loss | **(10,619)** | (8,912) | **—** | — |
| | **4,636** | 9,609 | **4,436** | 6,366 |

Details of principal associates are shown on page 65.

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES

| | The Group | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| Share of net liabilities | **(17,913)** | (11,541) |
| Amounts due from jointly controlled entities | **36,141** | 26,815 |
| | **18,228** | 15,274 |
| Less: impairment loss | **(18,228)** | (15,274) |
| | **—** | — |

Details of principal jointly controlled entities are shown on page 65.

## 16 OTHER NON-CURRENT FINANCIAL ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| **Investment securities** | | | | |
| Equity securities listed in Hong Kong | **—** | 225,937 | **—** | 225,937 |
| Equity securities listed outside Hong Kong | **2,236** | 9,843 | **—** | — |
| | **2,236** | 235,780 | **—** | 225,937 |
| Unlisted equity securities | **54,460** | — | **—** | — |
| | **56,696** | 235,780 | **—** | 225,937 |
| **Other securities** | | | | |
| Equity securities listed in Hong Kong | **—** | 2,481 | **—** | — |
| Equity securities listed outside Hong Kong | **21,175** | — | **—** | — |
| | **21,175** | 2,481 | **—** | — |
| Unlisted equity securities | **30,000** | — | **—** | — |
| | **51,175** | 2,481 | **—** | — |
| | **107,871** | 238,261 | **—** | 225,937 |
| Market value of listed securities | **66,353** | 238,210 | **—** | 225,937 |

## 17 SHORT TERM INVESTMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| **Trading securities (at market value)** | | | | |
| Equity securities listed in Hong Kong | **164,067** | 102,892 | **161,558** | 102,892 |

Included in trading securities were ordinary shares of $2 each of China Motor Bus Company, Limited, which is incorporated in Hong Kong, as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Market value of ordinary shares of China Motor Bus Company, Limited | **136,990** | 102,747 | **136,171** | 102,747 |
| Proportion of ownership interest | **4.5%** | 4.5% | **4.5%** | 4.5% |

## 18 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are deposits paid in respect of acquisition of equity interests in two companies, as disclosed in note 29(b).

Included in trade and other receivables are trade receivables (net of provisions for bad and doubtful debts) with the following ageing analysis:

| | The Group | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| 0 - 1 month | **14,474** | 45,206 |
| 2 - 3 months | **9,724** | 27,371 |
| Over 3 months | **1,945** | 53 |
| | **26,143** | 72,630 |

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at respective credit terms. Reviews of major receivables are conducted regularly.

## 19 PLEDGED DEPOSITS

Pledge of the Company's fixed deposits of US$6,110,000 (2000: US$14,050,000) and corporate guarantees were given to bankers to secure short term loans, bank overdrafts and factoring facilities to the extent of US$11,600,000 (2000: US$22,050,000).

## 20 BANK LOANS AND OVERDRAFTS - SECURED

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Bank loans | **46,680** | 49,418 | **—** | — |
| Bank overdrafts | **6** | 721 | **—** | 237 |
| | **46,686** | 50,139 | **—** | 237 |

The bank loans and overdrafts were secured by pledge of fixed deposits and were repayable on demand.

## 21 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of $67,541,000 (2000: $83,891,000). All trade payables are due within one month.

## 22 DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") subject to the Club Rules and By-laws for so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from monthly subscription. At 31 December 2001, the Group's debentures were redeemable as follows:

| | The Group | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| Within one year | **11,410** | 4,060 |
| In the second year | **4,440** | 11,290 |
| In the third to fifth year | **2,110** | 4,980 |
| | **17,960** | 20,330 |
| Current liabilities | **11,410** | 4,060 |
| Non-current liabilities | **6,550** | 16,270 |
| | **17,960** | 20,330 |

All redeemable debentures of $60,000 and $250,000 may be renewed every 5 years and debentures of $40,000 may be renewed every 3 years thereafter upon the Club's prior consent.

## 23 CONVERTIBLE BONDS

All convertible bonds carried interest at 2% per annum payable in arrears and carried the right to convert the outstanding principal amount of the bonds into the Company's ordinary shares at any time following the date of issue of the bonds at a conversion price of $1 per share.

All convertible bonds were redeemed during 2001 at the outstanding principal amount of the bonds together with interest accrued thereon.

## 24 OTHER LOANS - UNSECURED

The loans are due to a minority shareholder of a subsidiary, and are unsecured, interest free and repayable on demand.

## 25 DEFERRED TAXATION

### (a) Movements on deferred taxation comprise:

| | The Group | |
|---|---|---|
| | **2001** | 2000 |
| | ***$'000*** | *$'000* |
| At 1 January | **1,312** | 286 |
| Exchange difference | **3** | — |
| Transfer (to)/from the income statement (note 5(a)) | **(1,220)** | 1,026 |
| At 31 December | **95** | 1,312 |

### (b) Major components of deferred tax (assets)/liabilities of the Group are set out below:

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **Provided** | **Potential liabilities/ (assets) unprovided** | Provided | Potential liabilities/ (assets) unprovided |
| | ***$'000*** | ***$'000*** | *$'000* | *$'000* |
| Depreciation allowances in excess of related depreciation | **175** | **1,388** | 1,312 | 688 |
| Tax losses | **(80)** | **(32,139)** | — | (33,595) |
| | **95** | **(30,751)** | 1,312 | (32,907) |

### (c) Major components of deferred tax assets of the Company are set out below:

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **Provided** | **Potential liabilities/ (assets) unprovided** | Provided | Potential liabilities/ (assets) unprovided |
| | ***$'000*** | ***$'000*** | *$'000* | *$'000* |
| Depreciation allowances in excess of related depreciation | **—** | **—** | — | 249 |
| Tax losses | **—** | **(14,880)** | — | (18,983) |
| | **—** | **(14,880)** | — | (18,734) |

## 26 SHARE CAPITAL

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **No. of shares** ***('000)*** | ***$'000*** | No. of shares *('000)* | *$'000* |
| **Authorised:** | | | | |
| Ordinary shares of $0.50 each | **2,000,000** | **1,000,000** | 2,000,000 | 1,000,000 |
| **Issued and fully paid:** | | | | |
| At 1 January | **1,650,658** | **825,329** | 1,248,960 | 624,480 |
| Issue for acquisition of an investment | **—** | **—** | 163,500 | 81,750 |
| Share placement | **—** | **—** | 235,000 | 117,500 |
| Exercise of share options | **—** | **—** | 3,198 | 1,599 |
| At 31 December | **1,650,658** | **825,329** | 1,650,658 | 825,329 |

At 31 December 2001, the outstanding options were:

| **Date of grant** | **Exercise price** | **Number of options outstanding at the year end** |
|---|---|---|
| 11 October 1999 | $1.528 | 4,936,000 |
| 22 October 1999 | $1.530 | 300,000 |
| 1 December 1999 | $1.804 | 144,000 |
| 20 December 1999 | $2.316 | 800,000 |
| 27 March 2000 | $1.900 | 1,950,000 |
| 1 August 2000 | $0.630 | 576,000 |
| 1 September 2000 | $0.694 | 50,000 |
| 18 September 2000 | $0.670 | 500,000 |

These share options are exercisable before 29 December 2007.

The exercise in full of the remainder of the share options would, under the present capital structure of the Company, result in the issue of 9,256,000 additional ordinary shares of $0.50 each at a total consideration of approximately $14,551,000.

## 27 RESERVES

### (a) The Group

| | Revaluation reserve | Share premium | Capital redemption reserve | Exchange reserve | Goodwill reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| At 1 January 2000 | 365,467 | 296,409 | 478 | 607 | (501,862) | (77,437) | 83,662 |
| Issue for acquisition of an investment | — | 147,150 | — | — | — | — | 147,150 |
| Share placement | — | 763,750 | — | — | — | — | 763,750 |
| Exercise of share options | — | 2,569 | — | — | — | — | 2,569 |
| Share issue expenses | — | (20,157) | — | — | — | — | (20,157) |
| Deficit on revaluation | (365,467) | — | — | — | — | — | (365,467) |
| Exchange differences | — | — | — | 422 | — | — | 422 |
| Net goodwill on consolidation | — | — | — | — | (1,199) | — | (1,199) |
| Impairment loss on goodwill | — | — | — | — | 473,061 | — | 473,061 |
| Loss for the year | — | — | — | — | — | (677,621) | (677,621) |
| At 31 December 2000 | — | 1,189,721 | 478 | 1,029 | (30,000) | (755,058) | 406,170 |
| At 1 January 2001 | | | | | | | |
| — as previously reported | — | 1,189,721 | 478 | 1,029 | (503,061) | (281,997) | 406,170 |
| — prior year adjustment *(note 10)* | — | — | — | — | 473,061 | (473,061) | — |
| — as restated | — | 1,189,721 | 478 | 1,029 | (30,000) | (755,058) | 406,170 |
| Exchange differences | — | — | — | (239) | — | — | (239) |
| Loss for the year | — | — | — | — | — | (197,696) | (197,696) |
| **At 31 December 2001** | **—** | **1,189,721** | **478** | **790** | **(30,000)** | **(952,754)** | **208,235** |

The accumulated losses of the Group include profit of $200,000 (2000: profit $110,000) retained by associates.

## 27 RESERVES (CONTINUED)

### (b) The Company

| | Revaluation reserve $'000 | Share premium $'000 | Capital redemption reserve $'000 | Accumulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 January 2000 | 251,398 | 296,409 | 478 | (44,814) | 503,471 |
| Issue for acquisition of an investment | — | 147,150 | — | — | 147,150 |
| Share placement | — | 763,750 | — | — | 763,750 |
| Exercise of share options | — | 2,569 | — | — | 2,569 |
| Share issue expenses | — | (20,157) | — | — | (20,157) |
| Deficit on revaluation | (251,398) | — | — | — | (251,398) |
| Loss for the year | — | — | — | (237,502) | (237,502) |
| At 31 December 2000 | — | 1,189,721 | 478 | (282,316) | 907,883 |
| At 1 January 2001 | — | 1,189,721 | 478 | (282,316) | 907,883 |
| Loss for the year | — | — | — | (669,848) | (669,848) |
| **At 31 December 2001** | **—** | **1,189,721** | **478** | **(952,164)** | **238,035** |

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | **2001** | 2000 restated |
|---|---|---|
| | **$'000** | $'000 |
| Loss before taxation | **(199,318)** | (687,066) |
| Impairment loss on goodwill | **—** | 473,061 |
| Depreciation | **13,961** | 28,150 |
| Amortisation of licence rights | **—** | 7,615 |
| Share of results of associates | **(405)** | 452 |
| Share of results of jointly controlled entities | **6,427** | 11,541 |
| Interest expenses | **5,486** | 11,408 |
| Loss on disposal of property and equipment | **2,409** | 1,989 |
| Gain on disposal of a subsidiary in prior year | **—** | (7,765) |
| Loss/(gain) on disposal of investments in securities | **19** | (105) |
| Deficit on revaluation of land and buildings | **16,058** | 52,961 |
| Deficit on revaluation of investment properties | **400** | 1,000 |
| Provision for diminution in value of investments in securities | **174,778** | 108,177 |
| Provision for diminution in value of and non-recoverable amounts due from associates | **1,707** | 5,563 |
| Provision for diminution in value of and non-recoverable amounts due from jointly controlled entities | **2,907** | 15,274 |
| Provision for impairment of licence rights | **—** | 21,310 |
| Provision for impairment of fixed assets | **198** | — |
| Decrease in inventories | **134** | 52 |
| Decrease in trade and other receivables | **67,747** | 30,024 |
| Decrease in trade and other payables | **(27,199)** | (30,298) |
| Foreign exchange | **(695)** | 598 |
| Net cash inflow from operating activities | **64,614** | 43,941 |

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (b) Analysis of changes in financing:

| | Share capital (including premium) | Debentures | Other loans | Convertible bonds | Pledged deposits |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| At 1 January 2000 | 920,889 | 20,390 | 5,178 | 167,046 | (58,005) |
| Increase in issue | 885,418 | — | — | — | — |
| Expenses on new issue | (20,157) | — | — | — | — |
| Increase in pledged deposits | — | — | — | — | (4,271) |
| Redemption of debentures | — | (60) | — | — | — |
| Shares issued for non-cash consideration | 228,900 | — | — | — | — |
| Effect of foreign exchange | — | — | 20 | — | (232) |
| At 31 December 2000 | 2,015,050 | 20,330 | 5,198 | 167,046 | (62,508) |
| At 1 January 2001 | 2,015,050 | 20,330 | 5,198 | 167,046 | (62,508) |
| Redemption of debentures | — | (2,370) | — | — | — |
| Redemption of convertible bonds | — | — | — | (167,046) | — |
| Decrease in pledged deposits | — | — | — | — | 61,773 |
| Effect of foreign exchange | — | — | 9 | — | (121) |
| **At 31 December 2001** | **2,015,050** | **17,960** | **5,207** | **—** | **(856)** |

## 29 COMMITMENTS

### (a) Operating lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Within 1 year | **2,967** | 2,314 | **2,640** | — |
| After 1 year but within 5 years | **1,050** | 170 | **880** | — |
| After 5 years | **—** | 141 | **—** | — |
| | **4,017** | 2,625 | **3,520** | — |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

### (b) Acquisition of equity interests

A wholly-owned subsidiary of the Company entered into an agreement with a software development company based in the People's Republic of China ("PRC"), to acquire 20% of the enlarged share capital of the software development company at a consideration of RMB28,000,000 ($26,374,000) which was remitted before 31 December 2001. Upon the completion of the acquisition in January 2002, the software development company became an associate of the Group.

Another wholly-owned subsidiary of the Company entered into a subscription agreement with a PRC based company specialising in the development of electronic payment systems, to acquire 666,667 shares (representing approximately 7% of the enlarged share capital) of the investee company for a consideration of US$1,000,000 ($7,780,000). An amount equivalent to the purchase consideration was paid into an escrow account before 31 December 2001. Closing of the acquisition is subject to satisfactory completion of the due diligence exercise and other closing conditions.

## 29 COMMITMENTS (CONTINUED)

### (c) Other commitments

As at 31 December 2001, the Company, acting on behalf of the Hill Top Country Club Limited, was party to a co-operative joint venture agreement with a PRC joint venture partner in respect of the Shanghai Hilltop Country Club Limited ("SHCCL"). According to the terms of the co-operative joint venture agreement, the Company committed to pay the PRC joint venture partner any shortfall in the profit distributed by SHCCL to the PRC joint venture partner below the amount of US$268,000 ($2,085,000) per annum from 2000 up to 2022. As at 31 December 2001, the aggregate of the maximum amount payable by the Company to the PRC joint venture partner up to 27 December 2022 in excess of the amount provided for in these financial statements amounted to US$5,628,000 ($43,786,000).

## 30 CONTINGENT LIABILITIES

At 31 December 2001, there were contingent liabilities in respect of the following:

(a) In November 2000, a telecommunications carrier served a notice of arbitration on a subsidiary in respect of various services provided to the subsidiary in connection with the transit of telecommunications traffic. On 31 October 2001, the arbitrator (appointed by American Arbitration Association) ruled against the subsidiary and made an award of US$1,960,000 to the carrier, together with pre-award interest, arbitrator's fees and expenses, arbitration administrative fees and expenses, and interest thereon. The subsidiary does not have the funds available to pay the amounts awarded and there is uncertainty as to whether the award is enforceable against the subsidiary.

The Group is consulting its legal advisors and reviewing the merits of available options, including contesting the award, negotiating with the claimant, and/or whether to provide funding to the subsidiary to discharge any such liability in the event that it is enforceable. As it is not practicable at this stage to determine whether, and if so, the extent to which, any liability to the Group will ultimately become payable, no provision has been made in the financial statements in connection with the award.

(b) One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US$1,500,000 from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputes traffic volumes generated in the past and claims to have been underpaid by at least US$2,736,125.

Management is studying the allegations raised and is seeking legal advice on the subsidiary's legal rights and liabilities. To date, the basis of the claims has not been clearly specified and the Group is not aware of any legitimate grounds for such claims. In the meantime, no provision has been made in the financial statements in connection with these claims.

## 30 CONTINGENT LIABILITIES (CONTINUED)

(c) A dispute has arisen with regard to the terms of a strategic partner agreement between the Group and a joint venture partner. The joint venture partner alleges that the Company failed to fulfil its obligations in funding and in marketing the joint venture partner's products.

Although no formal legal proceedings have begun and there is no information regarding the amount of potential exposure, the Company has nevertheless obtained legal advice and has been advised that it has a good defence to the allegations. Therefore, no provision has been made in the financial statements in connection with these allegations.

(d) During the year ended 31 December 2001, the Company executed corporate guarantees as part of the security for general banking facilities granted to certain subsidiaries to the extent of US$11,600,000.

## 31 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2001, the Company paid interest of $663,000 (2000: $Nil) in respect of convertible bonds held by a company controlled by a substantial shareholder of the Company. As at 31 December 2001, the amount of the Company's outstanding convertible bonds held by that company were $Nil (2000: $35,123,000).

During the year, the Company received interest income amounting to $398,000 (2000: $810,000) from an associated company.

On 27 April 2001, the Company entered into a tenancy agreement with a company controlled by a substantial shareholder of the Company. Rental expense paid and payable under the agreement during the year ended 31 December 2001 amounted to $1,218,000. The terms of the tenancy agreement are on an arm's length basis.

## 32 COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of the adoption of Statement of Standard Accounting Practice 31 "Impairment of Assets" and the transitional provisions under Statement of Standard Accounting Practice 30 "Business Combinations" as discussed in note 10.

Comparative figures in respect of operating lease commitments in note 29(a) have been restated as a result of the adoption of Statement of Standard Accounting Practice 14 "Leases".

Comparative figures for the analysis of other operating expenses and other revenue, in the consolidated income statement have been reclassified to conform with the current year's classification of income and expense items, and an additional line item in respect of other net loss has been added.