Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. During the year, the Group disposed of and discontinued its business involved in the distribution and sale of motor vehicles and the provision of after sale service, including repair and maintenance services and the sale of spare parts in Hong Kong and the People's Republic of China (the "PRC"). Further details are included in note 5 to the financial statements.

During the year, the Group invested in certain strategic companies for provision of online financial services and made strategic investments in certain hi-technology projects.

The principal activities of the Company's subsidiaries comprise the provision of Internet products and services, the provision of telecommunication products and services and investment holding.

As at 31 December 2001, the directors considered that the ultimate holding company of the Company is Sky Concord Development Limited, a company incorporated in the British Virgin Islands ("BVI").

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

–	SSAP 9 (Revised)	Events after the balance sheet date
–	SSAP 14 (Revised)	Leases
–	SSAP 18 (Revised)	Revenue
–	SSAP 26	Segment reporting
–	SSAP 28	Provisions, contingent liabilities and contingent assets
–	SSAP 29	Intangible assets
–	SSAP 30	Business combinations
–	SSAP 31	Impairment of assets
–	SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries
–	Interpretation 12	Business combinations – subsequent adjustment of fair values and goodwill initially reported
–	Interpretation 13	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. A summary of the major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs follows.

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustments to the financial statements and which require disclosure but no adjustment, and has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP 14 has made certain amendments to the previous accounting measurement treatments, however these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, and therefore no prior year adjustments have been required. The disclosure changes under SSAP 14 (Revised) have resulted in total future commitments being disclosed for commitments under operating leases, rather than only the forthcoming year's commitments as was previously the case, as detailed in note 31 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The revised SSAP 18 has had no impacts on these financial statements.

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

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. The principal impact of SSAP 28 on these financial statements is the requirement to discount the amounts of provision to their present value at the balance sheet date where the effect of discount is material. The new SSAP 28 has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of SSAP 29 has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have had no significant impact on these financial statements.

Notes to Financial Statements
31 December 2001

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP 30 requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. The adoption of the SSAP has not resulted in a prior year adjustment, as there were no goodwill arising from acquisitions in previous years. The required new additional disclosures are included in notes 15 and 16 to the financial statements.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Subsidiaries

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

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of three years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

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

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

Impairment of assets *(continued)*

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

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

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

Fixed assets and depreciation

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

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

Leasehold land and buildings	5% or over the lease terms, whichever is shorter
Leasehold improvements	20% or over the lease terms, whichever is shorter
Computer equipment and software	50%
Furniture and fixtures	20%
Machinery, tools and equipment	20%
Motor vehicles and vessels	25%

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

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Investment in securities

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are classified as investment securities and stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the investment securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged are credited to the profit and loss account to the extent of the amount previously charged.

Other investments are listed equity securities and are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

A provision for extended warranty and free services granted by the Group on new vehicles sold is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

The adoption of SSAP 28 has had no significant effect to the provision made in the prior year.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent 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.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of telecommunication services, when the relevant services are provided;

(c) from the rendering of after sales services, when the services are provided;

(d) Internet advertising revenue, on a pro rata basis over the period in which the advertisements are displayed on the website operated by the Group, provided that no significant obligations remain and collection of the resulting receivable is reasonably assured;

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

Revenue recognition *(continued)*

(e) commission income, when the relevant services are rendered; and

(f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Retirement benefits scheme

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

Related parties

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

Foreign currencies

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

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

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

Cash equivalents

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

4. SEGMENT INFORMATION

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

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

(a) Online operations segment refers to the provision of Internet services. This segment includes the results, assets and liabilities of two companies which were acquired during the year. These companies are at a relatively early stage of their development. Further details of the acquisitions are set out in note 29(c) to the financial statements;

(b) Offline operations segment refers to the provision of telecommunication services and products. This segment was established during the year and commenced operations in September 2001. It is at a relatively early stage of operations. Subsequent to the year end the Group's equity interest in this segment was increased to 100%, see note 32(c) for further details thereof;

(c) Investment holding segment refers to the investment in securities; and

(d) Discontinued operations represent the Group's discontinued motor vehicle related business (note 5).

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

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

4. **SEGMENT INFORMATION** *(continued)*

(a) **Business segments**

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

	Online operations		**Offline operations**		**Investment holding**		**Discontinued operations**		**Consolidated**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**277**	1,395	**17,335**	–	**–**	–	**–**	80,921	**17,612**	82,316
Segment results	**(94,922)**	(193,554)	**(780)**	–	**1,619**	–	**–**	(1,333)	**(94,083)**	(194,887)
Interest and unallocated gains									**11,791**	5,036
Unallocated expenses									**(727)**	–
Loss from operating activities									**(83,019)**	(189,851)
Finance costs:										
Included in segment results	(1,696)	(396)	–	–	–	–	–	–	**(1,696)**	(396)
Unallocated amounts									**(115)**	(177)
									(1,811)	(573)
Share of profits less losses of associates	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Loss before tax									**(84,830)**	(190,424)
Tax									**–**	–
Loss before minority interests									**(84,830)**	(190,424)
Minority interests									**5**	–
Net loss attributable to shareholders									**(84,825)**	(190,424)

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Online operations		Offline operations		Investment holding		Discontinued operations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**44,510**	19,291	**3,365**	–	**34,946**	–	**–**	14,612	**82,821**	33,903
Bank balances included in segment assets	**–**	–	**154**	–	**–**	–	**–**	–	**154**	–
Unallocated assets									**5,363**	71,780
Total assets									**88,338**	105,683
Segment liabilities	**(16,583)**	(14,549)	**(3,294)**	–	**–**	–	**–**	(21,823)	**(19,877)**	(36,372)
Unallocated liabilities									**(12,710)**	(438)
Total liabilities									**(32,587)**	(36,810)
Other segment information:										
Impairment losses of interests in associates	**15,303**	–	**–**	–	**–**	–	**–**	–	**15,303**	–
Depreciation and amortisation	**14,640**	9,785	**76**	–	**–**	–	**–**	1,264	**14,716**	11,049
Website development costs	**6,835**	72,462	**–**	–	**–**	–	**–**	–	**6,835**	72,462
Other non-cash expenses	**–**	–	**–**	–	**4,541**	–	**–**	3,000	**4,541**	3,000
Capital expenditure	**49,413**	21,507	**689**	–	**–**	–	**–**	1,737	**50,102**	23,244

4. **SEGMENT INFORMATION** *(continued)*

(b) **Geographical segments**

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

	Hong Kong		**Elsewhere in the PRC**		**United States**		**Consolidated**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**17,612**	59,661	**–**	22,389	**–**	266	**17,612**	82,316
Segment results*	**(88,694)**	(79,981)	**(7,085)**	(113,820)	**–**	(1,482)	**(95,779)**	(195,283)

	Hong Kong		**Elsewhere in the PRC**		**United States**		**Consolidated**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Segment assets	**78,588**	97,410	**9,750**	8,273	**–**	–	**88,338**	105,683
Capital expenditure	**30,102**	21,507	**20,000**	1,737	**–**	–	**50,102**	23,244

* *Disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").*

Notes to Financial Statements

31 December 2001

5. DISCONTINUED OPERATIONS

On 2 January 2001, the Group discontinued its business of the servicing of motor vehicles following the disposal of its entire 100% equity interest in a subsidiary, Ankor Service Limited ("ASL"), to an independent third party for a consideration of HK$20. Further details of the agreement in respect of the sales of ASL are set out in an announcement of the Company dated 29 December 2000. The effective date of discontinuance of the Group's business of the servicing of motor vehicles for accounting purposes was 2 January 2001.

With the termination of all the car distribution agreements of the Group on 31 December 2000 and the disposal of ASL, Ankor Investments Limited ("AIL") and its subsidiaries (together the "AIL Group"), which operated the Group's motor vehicles business, became dormant. On 23 January 2001, the Group disposed of its entire 100% equity interest in AIL to another independent third party for a consideration of HK$10,000.

ASL and AIL were consolidated by the Group until the date of their disposals, at which time the assets and liabilities of ASL and AIL were transferred to the gain on disposal of the discontinued operations, which was as follows:

	2001	2000
	HK$'000	*HK$'000*
Proceeds received from the disposals of ASL and AIL	**10**	–
Less: Net liabilities of ASL and AIL disposed of	**7,211**	–
Waived amounts due to ASL and AIL	**3,184**	–
Gain on disposal of subsidiaries	**10,405**	–

Due to the disposals of ASL and AIL, the turnover and the loss from operating activities in respect of the Group's motor vehicles related business for the year, together with the corresponding amounts for the prior period, are classified and disclosed under discontinued operations in accordance with SSAP 2.

6. TURNOVER AND INCOME

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts, the value of services rendered and advertising income.

An analysis of the Group's turnover and other income is as follows:

	2001	2000
	HK$'000	*HK$'000*
Turnover		
Continuing operations:		
Sale of telecommunication products	**16,917**	–
Rendering of telecommunication services	**418**	–
Internet advertising income	**277**	1,395
	17,612	1,395
Discontinued operations:		
Sale of motor vehicles	**–**	40,932
Rendering of after sales service	**–**	39,989
	–	80,921
Other income/gains		
Gain on disposal of investments	**3,186**	–
Gain on disposal of fixed assets	**768**	–
Interest income	**1,386**	5,248
Commission income	**–**	322
Exchange gains, net	**26**	–
Others	**–**	15
	5,366	5,585
Total income	**22,978**	87,901

Notes to Financial Statements
31 December 2001

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	**2001** **HK$'000**	2000 HK$'000
Cost of inventories sold and services provided	*(i)*	**30,499**	65,531
Depreciation		**12,675**	11,049
Amortisation of goodwill		**2,041**	–
Provision for impairment of interest in associates (note 16)		**15,303**	–
Loss/(gain) on disposal of fixed assets		**(768)**	35
Write off of fixed assets		**–**	3,604
Website development costs	*(ii)*	**6,835**	72,462
Unrealised holding loss on investment in securities		**4,541**	–
Minimum lease payments under operating lease in respect of land and buildings		**2,040**	8,364
Auditors' remuneration		**850**	583
Staff costs, including directors' emoluments (note 8):			
Wages and salaries		**22,145**	62,120
Pension contributions	*(iii)*	**340**	850
		22,485	62,970
Provision for extended warranty and free services:			
Additional provisions		**–**	1,690
Reversals of unutilised provisions		**–**	(8,905)
		–	(7,215)
Exchange losses/(gains), net		**(25)**	92
Reversal of overprovision of minority interests		**–**	(3,000)

The amortisation of goodwill for the year, the provision for impairment of interest in associates, the website development costs and the unrealised holding loss on investment securities are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. LOSS FROM OPERATING ACTIVITIES *(continued)*

Notes:

(i) The cost of inventories sold and services provided for the year ended 31 December 2001 includes HK$12,212,000 relating to depreciation, which are also included in the amounts of depreciation disclosed separately above.

(ii) During the year, 164,754,524 ordinary shares of HK$0.01 each in aggregate were allotted and issued by the Company for the acquisition and enhancement of certain PRC-based websites at a total share premium of HK$5,187,000 (note 27) (the "Service Agreements").

Subsequently, the Group terminated all the Services Agreements and all the website development costs were expensed to the profit and loss account for the year. Further details of the termination agreement are set out in an announcement of the Company dated 20 February 2001.

(iii) At 31 December 2001, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2000: HK$202,000).

8. DIRECTORS' REMUNERATION

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Executive directors:		
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefit in kind	**5,250**	5,684
Pension scheme contributions	**26**	–
Compensation for loss of office	**550**	–
	5,826	5,684

There were no emoluments paid or payable to the non-executive directors and the independent non-executive directors of the Company during the year (2000: Nil).

Notes to Financial Statements
31 December 2001

8. DIRECTORS' REMUNERATION *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil to HK$1,000,000	**12**	11
HK$1,000,001 to HK$1,500,000	**3**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
	15	13

There was no arrangement under which a director has waived or agreed to waive any emoluments during the current and prior years.

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

During the year, 680,000,000 share options were granted to certain directors in respect of their services rendered to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no estimate value of such options has been charged to the profit and loss account as at the date of the grant.

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,081**	1,426
Performance related bonus	**–**	80
Pension scheme contributions	**10**	64
Compensation for loss of office	**378**	–
	2,469	1,570

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The number of employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2001	2000
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
	2	1

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the non-director, highest paid employees abovementioned as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

10. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	**–**	177
Convertible notes	**58**	–
Convertible bonds	**57**	–
Finance leases	**1,696**	396
	1,811	573

Notes to Financial Statements
31 December 2001

11. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The principal components of the Group's deferred tax liabilities/(assets) provided for and not provided for/(recognised) at the balance sheet date are as follows:

	Provided		Not provided	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax losses carried forward	**–**	–	**(128)**	(56,816)

12. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company was HK$104,813,000 (2000: HK$240,667,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$84,825,000 (2000: HK$190,424,000), and the weighted average of 1,582,097,774 (2000: 919,896,333) ordinary shares in issue during the year, as adjusted to reflect the share consolidation and the rights issue effected after the balance sheet date (note 32).

Diluted loss per share for the years ended 31 December 2001 and 2000 have not been disclosed as the share options and the convertible bonds and notes outstanding during these years and the bonus warrants effected after the balance sheet date (note 32) had an anti-dilutive effect on the basic loss per share for these years.

14. FIXED ASSETS

Group

	Long term leasehold land and buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Furniture and fixtures HK$'000	Machinery, tools and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
Cost:							
At 1 January 2001	–	7,797	14,280	1,146	1,256	5,303	29,782
Additions	–	–	9,191	85	–	498	9,774
Acquisition of subsidiaries	10,000	–	–	–	–	–	10,000
Disposals	–	–	(1,740)	(24)	–	–	(1,764)
Disposal of subsidiaries	–	(7,468)	–	(873)	(1,256)	(5,303)	(14,900)
At 31 December 2001	10,000	329	21,731	334	–	498	32,892
Accumulated depreciation:							
At 1 January 2001	–	7,002	7,140	636	782	4,372	19,932
Charge for the year	250	146	12,212	48	–	19	12,675
Disposals	–	–	(770)	(2)	–	–	(772)
Disposal of subsidiaries	–	(6,819)	–	(600)	(782)	(4,372)	(12,573)
At 31 December 2001	250	329	18,582	82	–	19	19,262
Net book value:							
At 31 December 2001	9,750	–	3,149	252	–	479	13,630
At 31 December 2000	–	795	7,140	510	474	931	9,850

The Group acquired the leasehold land and buildings, through acquisition of certain subsidiaries during the year. Further details of the acquisition is set out in note 29(c) to the financial statements.

The Group's leasehold land and buildings were valued by Castores Magi Surveyors Limited ("Castores"), a firm of independent professional valuers, on the open market value existing state basis, at an aggregate value of approximately HK$10 million as at 31 May 2001, the effective date of acquisition of the subsidiaries.

The net book value of the Group's fixed assets held under finance leases included in the total amount of computer equipment and software at 31 December 2001, amounted to HK$2,975,000 (2000: HK$4,849,000).

Notes to Financial Statements
31 December 2001

15. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the Group's goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	HK$'000
Cost:	
Acquisition of subsidiaries as at 31 December 2001	20,328
Accumulated amortisation:	
Amortisation provided during the year as at 31 December 2001	2,041
Net book value:	
At 31 December 2001	18,287
At 31 December 2000	–

During the year, the Group acquired certain subsidiaries of which the principal activities are investment holding and the provision of wireless application technology services. Further details of the acquisitions are set out in note 29(c) to the financial statements.

16. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**–**	–
Goodwill on acquisition	**15,303**	–
	15,303	–
Less: Provision for impairment *(note 7)*	**(15,303)**	–
	–	–

Notes to Financial Statements

31 December 2001

16. INTERESTS IN ASSOCIATES *(continued)*

During the year, the Group acquired a 40% equity interests in Internet Marketing & Services Limited ("IMS"), for a total consideration of HK$15.18 million. The consideration was satisfied by:

– HK$7.59 million by issue of 345 million ordinary shares of the Company at an issue price of HK$0.022 per share; and

– HK$7.59 million by issue of two convertible notes of the Company with the principal amounts of HK$3.795 million each which bears interest rate at 2.5% per annum. The convertible notes could be converted into 345 million shares at an initial conversion price of HK$0.022 per share at any time from 8 October 2001 to 7 October 2002.

The principal asset of IMS is its holding of all the issued share capital in Marketing Online Limited ("MOL"), a company incorporated in Hong Kong and principally engaged in the provision of news and financial data, publication and Internet marketing services. The consideration paid by the Group was determined by reference to an independent professional valuation of the underlying business of the IMS Group as at 31 August 2001, on the fair market value basis.

The impairment losses are estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable economic environment which has led to a significant scale down of the business operations of the IMS group subsequent to the balance sheet date in February 2002.

Particulars of the associates disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance are as follows:

Name	Place of incorporation and operations	Issued share capital	Percentage of equity attributable to the Group	Principal activities
Internet Marketing & Services Limited*	BVI	US$100	40%	Investment holding
Marketing Online Limited*	Hong Kong	HK$2,000,000	40%	Provision of news and financial data, publication and Internet marketing services

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

Notes to Financial Statements

31 December 2001

17. INVESTMENTS IN SECURITIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Investment securities:		
Unlisted in Hong Kong, at cost	**10,000**	–
Other investments:		
Listed in Hong Kong, at market value	**36,031**	–
Listed outside Hong Kong, at market value	**202**	–
	36,233	–
At 31 December	**46,233**	–
Carrying amount analysed for reporting purposes as:		
Non-current	**10,000**	–
Current	**36,233**	–
	46,233	–

Subsequent to the balance sheet date, the Group disposed of certain listed investments and received cash proceeds of approximately HK$3,580,000. The market values of the remaining listed investments as at the date of approval of these financial statements are approximately HK$15,992,000.

Particulars of the investment in securities disclosed pursuant to section 129 of the Hong Kong Companies Ordinance are as follows:

Name	**Place of incorporation**	**Issued share capital**	**Percentage of equity attributable to the Group**	**Principal activities**
West Marton Group Limited ("West Marton")	BVI	US$850	10%	Investment holding

The subsidiaries of West Marton are principally engaged in the provision of portal services in the PRC.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**4**	101,510
Due from subsidiaries	**153,977**	415,167
	153,981	516,677
Provision for impairment in value	**–**	(101,510)
Provision against amounts due from subsidiaries	**(103,981)**	(415,167)
	50,000	–

The amount due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out on pages 70 to 72 in this annual report.

19. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Finished goods held for sale:		
Cars	**–**	271
Spare parts and accessories	**–**	2,385
Workshop supplies	**–**	190
	–	2,846

As at 31 December 2000, the carrying amount of inventories carried at net realisable value was HK$2,331,000.

Notes to Financial Statements

31 December 2001

20. ACCOUNTS RECEIVABLE

The Group has a policy of allowing an average credit period of 60 days to its trade customers.

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date and net of provisions, was as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within 30 days	**1,090**	909
31 – 60 days	**225**	188
61 – 90 days	**–**	282
Over 90 days	**–**	207
	1,315	1,586

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**5,502**	13,897	**277**	13
Time deposits	**1,440**	71,028	**666**	71,028
	6,942	84,925	**943**	71,041
Less: Pledged time deposits	**(774)**	–	**–**	–
Cash and cash equivalents	**6,168**	84,925	**943**	71,041

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, was as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within 30 days	**372**	619
31 – 60 days	**31**	1,064
61 – 90 days	**9**	364
Over 90 days	**–**	1,226
	412	3,273

23. PROVISION FOR EXTENDED WARRANTY AND FREE SERVICE

	Group	
	2001	2000
	HK$'000	*HK$'000*
At beginning of year	**10,247**	17,462
Additional provision for the year	**–**	1,690
Reversal of utilised amounts	**–**	(8,905)
Disposal of subsidiaries	**(10,247)**	–
At 31 December	**–**	10,247
Portion classified as current liabilities	**–**	(7,835)
Long term portion	**–**	2,412

SSAP 28 was implemented during the year, as detailed in note 2 to the financial statements. There are no significant effects on the discounted amounts of provision to the present value at the balance sheet date for the prior year. Accordingly, no prior year adjustment is included in the financial statements.

As further detailed in note 5 to the financial statements, the Group disposed of certain subsidiaries during the year, the principal activities of which was motor vehicles related business. The motor vehicle related business was accounted for until the date of disposal, at which time the assets and liabilities of the motor vehicle related business were transferred to the gain on disposal of discontinued operations.

23. PROVISION FOR EXTENDED WARRANTY AND FREE SERVICE *(continued)*

In prior years, in addition to the normal manufacturers' warranty, the Group provided a package comprising free after sales service and an extension of the manufacturers' warranty up to a period of three years from the date of sale of a new motor vehicle. Provision was made, in the year the new vehicle was sold, for the expected future revenue associated with providing the package and actual internal service costs were matched against the provision as incurred. The level of provision required was assessed by the directors annually and adjustment made if necessary.

24. CONVERTIBLE BONDS PAYABLE

Convertible bonds (the "Bonds") in the principal amount of HK$12,000,000 were issued by the Company in July 2001 in favour of more than six independent third parties pursuant to a bond placement agreement dated 23 July 2001. The Bonds are repayable on 22 July 2002 and bears interest at 2.5% per annum.

Pursuant to the conversion terms and conditions of the Bonds, the Bonds holder may at its election at any time prior to the payment in full of the Bonds, convert any outstanding amount of the Bonds in units of HK$240,000 into 20,000,000 conversion shares at the conversion price of HK$0.022 per share by a payment of cash in the amount of HK$200,000 and tender the fair value of HK$240,000 outstanding Bonds.

No early redemption by cash is allowed prior to the maturity date of the Bonds. Any unredeemed and unconverted Bonds will be redeemed in cash or by the issue of the conversion shares upon maturity of the Bonds at the option of the Company.

During the year, an amount of HK$7,440,000 of the Bonds had been converted into conversion shares.

25. CONVERTIBLE NOTES PAYABLE

Convertible notes (the "Notes") in the principal amount of HK$7,590,000 were issued by the Company in September 2001 in favour of two independent third parties as partial consideration for the acquisition of a 40% equity interest in associates (note 16). The Notes are repayable on 8 October 2002 and bears interest at 2.5% per annum.

Pursuant to the conversion terms and conditions of the Notes, the Notes holder may at its election at any time prior to the payment in full of the Notes, convert any outstanding amount of the Notes and its accrued interest in units of HK$379,500 into 17,250,000 conversion shares at the conversion price of HK$0.022 per share.

No early redemption by cash is allowed prior to the maturity date of the Notes. Any unredeemed and unconverted Bonds will be redeemed in cash or by the issue of the conversion shares upon maturity of the Notes, at the option of the Company.

No Notes were converted into conversion shares during the year.

26. FINANCE LEASE PAYABLES

The Group leases certain of its computer equipment for its Internet and telecommunication services business. These leases are classified as finance leases and have remaining lease terms ranging from one to two years. Pursuant to the leases, the Group has been granted purchase options to purchase all the leased assets at HK$400 at the end of the leases term.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	**Minimum lease payments 2001 *HK$'000***	Minimum lease payments 2000 *HK$'000*	**Present value of minimum lease payments 2001 *HK$'000***	Present value of minimum lease payments 2000 *HK$'000*
Amounts payable:				
Within one year	**10,473**	3,546	**9,361**	2,703
In the second year	**1,053**	3,546	**1,005**	3,136
In the third to fifth years, inclusive	**–**	1,052	**–**	1,005
Total minimum finance lease payments	**11,526**	8,144	**10,366**	6,844
Future finance charges	**(1,160)**	(1,300)		
Total net finance lease payables	**10,366**	6,844		
Portion classified as current liabilities	**(9,361)**	(2,703)		
Long term portion	**1,005**	4,141		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

27. SHARE CAPITAL

The following is a summary of movements in the authorised and issued share capital of the Company:

Shares

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000
Authorised:			
At 31 December 2000 and 2001		30,000,000,000	300,000
Issued and fully paid:			
At 1 January 2001		7,600,396,465	76,004
Issued for payment of websites development costs	*(i)*	164,754,524	1,648
New issue of shares by way of placing	*(ii)*	1,300,000,000	13,000
Issue of consideration shares	*(iii)*	345,000,000	3,450
Conversion of convertible bonds	*(iv)*	620,000,000	6,200
At 31 December 2001		10,030,150,989	100,302

The following changes in the Company's issued share capital took place during the year:

(i) On 20 February 2001 and 5 March 2001, the Company issued 161,244,524 and 3,510,000 ordinary shares credited as fully paid to certain independent third parties at HK$0.042 and HK$0.018 per share, respectively, as considerations for acquisition and enhancement of certain PRC-based websites (note 7).

(ii) Pursuant to an agreement to place existing shares and subscribe for new shares dated 13 June 2001, Rich Delta Development Limited, the controlling shareholder of the Company, placed 1,300,000,000 existing shares to more than six independent investors at a price of HK$0.036 per share and subscribe for 1,300,000,000 new shares of the Company at the price of HK$0.036 per share.

(iii) Pursuant to an acquisition agreement dated 11 September 2001, the Company issued 345,000,000 consideration shares credited as fully paid at HK$0.022 per share to two independent third parties as partial consideration for the acquisition of a 40% equity interest in associates (note 16).

27. SHARE CAPITAL *(continued)*

Shares *(continued)*

(iv) As further detailed in note 24, the Company issued Bonds in the aggregate principal amount of HK$12,000,000. During the year, an aggregate amount of HK$7,440,000 of the Bonds were converted into 620,000,000 conversion shares pursuant to the conversion terms and conditions of the Bonds.

Shares issued during the year rank pari passu in all respects with shares in issue at that time.

Share options

The Company operates a share option scheme (the “Scheme”), further details of which are set out under the heading “Share option scheme” in the Report of the Directors.

On 26 June 2000, the Scheme was approved pursuant to a written resolution of the Company. The purpose of the Scheme is to enable the Group to grant options to employees as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee of the Company or its subsidiaries, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes by the Company must not exceed 10% of the shares in issue from time to time. A non-refundable nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price for shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will be the greater of: (i) the nominal value of the share and (ii) an amount not less than 80 per cent of the average closing price of the shares as stated in the daily quotations immediately preceding the date on which the offer to grant an option is made to an employee.

The maximum number of share in respect of which an option may be granted under the Scheme will not, when aggregated with any shares subject to any other share option schemes of the Company, exceed 10 per cent of the issued share capital of the Company from time to time.

At the beginning of the year, there were 402,737,750 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 1 September 2000 to 17 December 2001. The subscription prices per share payable upon the exercise of these options range from HK$0.063 to HK$0.130.

27. SHARE CAPITAL *(continued)*

Share options *(continued)*

During the year, the Company granted a total of 754,625,000 new share options under the Scheme. The share options granted entitle the holders to subscribe for shares of the Company at any time during the period ranging from 2 March 2001 to 25 June 2010. The subscription prices per share payable upon the exercise of these options range from HK$0.016 to HK$0.063.

No share options were exercised during the year and 411,362,750 share options with an exercise price range from HK$0.063 to HK$0.130 were cancelled during the year.

At the balance sheet date, the Company had 746,000,000 share options outstanding under the Scheme, with an exercise period from 23 July 2001 to 25 June 2010 and an exercise price of HK$0.016. The exercise in full of the remaining share options would, under the capital structure of the Company as at 31 December 2001, result in the issue of 746,000,000 additional shares of HK$0.01 each and proceeds of approximately HK$11,936,000.

The Scheme remains in force for a period of 10 years with effect from 26 June 2000.

Notes to Financial Statements

31 December 2001

28. DEFICIT

Group

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2000	186,191	(316,957)	(130,766)
Issue of shares	262,306	–	262,306
Issue expenses	(18,627)	–	(18,627)
Cancelled paid-up ordinary share capital	–	70,380	70,380
Loss for the year	–	(190,424)	(190,424)
At 31 December 2000 and 1 January 2001	429,870	(437,001)	(7,131)
Issue of shares	50,567	–	50,567
Issue expenses	(3,162)	–	(3,162)
Loss for the year	–	(84,825)	(84,825)
At 31 December 2001	477,275	(521,826)	(44,551)
Deficits retained by:			
Company and subsidiaries	477,275	(521,826)	(44,551)
Associates	–	–	–
At 31 December 2001	477,275	(521,826)	(44,551)
At 31 December 2000 – Company and subsidiaries	429,870	(437,001)	(7,131)

Notes to Financial Statements
31 December 2001

28. DEFICIT *(continued)*

Company

	Share premium account *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2000	186,191	(264,245)	(78,054)
Issue of shares	262,306	–	262,306
Issue expenses	(18,627)	–	(18,627)
Cancelled paid-up ordinary share capital	–	70,380	70,380
Loss for the year	–	(240,667)	(240,667)
At 31 December 2000 and 1 January 2001	429,870	(434,532)	(4,662)
Issue of shares	50,567	–	50,567
Issue expenses	(3,162)	–	(3,162)
Loss for the year	–	(104,813)	(104,813)
At 31 December 2001	477,275	(539,345)	(62,070)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2001	2000
	HK$'000	*HK$'000*
Loss from operating activities	**(83,019)**	(189,851)
Interest income	**(1,386)**	(5,248)
Websites development costs	**6,835**	72,462
Write off of fixed assets	**–**	3,604
Amortisation of goodwill	**2,041**	–
Provision for impairment of interest in associates	**15,303**	–
Depreciation of fixed assets	**12,675**	11,049
Loss/(gain) on disposal of fixed assets	**(768)**	35
Gain on disposal of subsidiaries	**(10,405)**	–
Decrease in inventories	**–**	2,855
Decrease/(increase) in accounts receivables	**(6,013)**	2,830
Decrease/(increase) in deposits, prepayments and other receivables	**7,606**	(2,960)
Increase/(decrease) in accounts payables	**7,387**	(5,864)
Decrease in accrued liabilities and other payables	**(6,787)**	(8,149)
Decrease in provision for extended warranty and free services	**–**	(7,215)
Overprovision for minority interests	**–**	(3,000)
Net cash outflow from operating activities	**(56,531)**	(129,452)

Notes to Financial Statements

31 December 2001

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

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	Convertible notes payable HK$'000	Convertible bonds payable HK$'000	Finance lease payable HK$'000	Minority interests HK$'000
At 1 January 2000	264,391	–	–	–	–
Net cash inflow from financing activities	239,210	–	–	(2,854)	–
Cancelled paid-up ordinary share capital	(70,380)	–	–	–	–
Ordinary shares paid up other than cash	72,653	–	–	–	–
Obligations under finance leases	–	–	–	9,698	–
At 31 December 2000 and 1 January 2001	505,874	–	–	6,844	–
Net cash inflow from financing activities	49,838	–	12,000	(5,065)	5
Acquisition of associates *(note 29(e)(i))*	7,590	7,590	–	–	–
Assignment of finance lease contracts by a related company *(note 29(e)(ii))*	–	–	–	8,587	–
Issue of shares for payment of websites development costs *(note 29(e)(iii))*	6,835	–	–	–	–
Conversion of convertible bonds *(note 29(e)(iv))*	7,440	–	(7,440)	–	–
Share of loss of a subsidiary	–	–	–	–	(5)
At 31 December 2001	577,577	7,590	4,560	10,366	–

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

(c) Acquisition of subsidiaries

	2001	2000
	HK$'000	*HK$'000*
Net assets acquired:		
Leasehold land and buildings	**10,000**	–
Accrued liabilities and other payables	**(1,328)**	–
Loan from the former shareholder	**(6,976)**	–
	1,696	–
Goodwill arising from acquisition	**20,328**	–
	22,024	–
Satisfied by:		
Cash	**29,000**	–
Assignment of a loan from the former shareholder	**(6,976)**	–
	22,024	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001	2000
	HK$'000	*HK$'000*
Cash consideration and net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries	**29,000**	–

Notes to Financial Statements

31 December 2001

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

(c) Acquisition of subsidiaries *(continued)*

During the year, the following significant acquisitions took place:

Acquiree	Place of incorporation	Principal activities	Percentages of voting shares acquired	Cost of acquisition HK$'000	Effective date of acquisition
Luckco Assets Limited	BVI	Property holding	100	5,000	31 May 2001
Cofidelen Profits Limited	BVI	Property holding	100	5,000	31 May 2001
Comstar Hong Kong Limited ("Comstar")	Hong Kong	Provision of wireless services application	100	15,000	23 August 2001
Info Century Inc. ("ICI")	BVI	Internet content provider	100	4,000	22 November 2001

The subsidiaries acquired during the year ended 31 December 2001 had no contribution to the Group's net operation cash inflow, did not pay any net returns on investments and servicing of finance and contributed neither to investing activities nor financing activities.

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

(d) Disposal of subsidiaries

	2001 **HK$'000**	2000 HK$'000
Net assets disposed of:		
Fixed assets	**2,327**	–
Inventories	**2,846**	–
Accounts receivable, deposit, prepayment and other receivables	**6,284**	–
Cash and bank balances	**3,155**	–
Accounts payable, accrued liabilities and other payables	**(11,576)**	–
Provision for extended warranty and free services	**(10,247)**	–
	(7,211)	–
Gain on disposal of subsidiaries	**10,405**	–
	3,194	–
Satisfied by:		
Cash	**10**	–
Waived amounts due to the disposed subsidiaries	**3,184**	–
	3,194	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2001 **HK$'000**	2000 HK$'000
Cash consideration	**10**	–
Cash and bank balances disposed of	**(3,155)**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(3,145)**	–

The subsidiaries disposed of during the year ended 31 December 2001 had no contributions to the Group's net operating cash inflow, did not pay any net returns on investments and servicing of finance and contributed neither to investing activities nor financing activities.

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

(e) Major non-cash transactions

(i) During the year, the Group acquired a 40% equity interest in associates at a consideration of HK$15,180,000. The consideration is to be settled by (i) the issue of Notes of HK$7,590,000 and (ii) the issue of 345,000,000 consideration shares credited as fully paid at HK$0.022 per share.

(ii) During the year, the Group acquired certain computer equipment and software of HK$8,587,000 from a former related company by assignment of and transferring the obligations and liabilities under finance leases of HK$8,587,000 to the Group.

(iii) As further detailed in note 27 (i), during the year, the Company allotted 161,244,524 and 3,510,000 shares issued at HK$0.042 and HK$0.018 per share, respectively, credited as fully paid to certain independent third parties, as consideration for acquisition and enhancement of certain PRC-based websites.

(iv) As further detailed in note 24 to the financial statements, an amount of HK$7,440,000 of the Bonds had been converted into conversion shares of the Company during the year with cash proceeds of HK$6.2 million.

30. CONTINGENT LIABILITIES

As at 31 December 2001, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2001	2000
	HK$'000	*HK$'000*
Guarantees of hire purchase financing facilities granted by a finance company to a subsidiary's customers	**2,680**	2,680
Guarantees given to securities dealers in connection with financing facilities granted to subsidiaries	**10,000**	–
	12,680	2,680

None of the above facilities was utilised as at 31 December 2001.

At 31 December 2001, the Group had no significant contingent liabilities (2000: Nil).

31. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements for terms ranging from two to three years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
		(Restated)
Within one year	**918**	393
In the second to fifth years, inclusive	**721**	1,619
	1,639	2,012

SSAP 14 (Revised) requires lessees under operating leases to disclose the total minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases above, have been restated to accord with the current year's presentation.

At 31 December 2001, the Company had no significant commitments (2000: Nil).

32. POST BALANCE SHEET EVENTS

(a) Pursuant to ordinary resolutions passed on 4 February 2002, the Company effected a capital reorganisation comprising a capital reduction (the "Capital Reduction") and a share consolidation (the "Share Consolidation"). Under the Capital Reduction, the paid up capital of the issued shares will be reduced from HK$0.01 to HK$0.0008 each by the cancellation of HK$0.0092 paid up capital on each issued share. As a result of the Capital Reduction, based on the present number of 10,030,150,989 issued shares, an amount of approximately HK$92,277,389 from the share capital account of the Company will be cancelled and credited to a contributed surplus account of the Company and applied in eliminating part of the Company's accumulated losses. Immediately after the Capital Reduction, the Company then effect the Share Consolidation, whereby every twenty five issued shares of HK$0.0008 each were consolidated into two new shares. Following the Capital Reduction and the Share Consolidation, the issued share capital of the Company would comprise 802,412,078 new shares.

32. POST BALANCE SHEET EVENTS *(continued)*

(b) Pursuant to ordinary resolutions passed on 4 February 2002, a rights issue of 6,820,502,663 rights shares at an issue price of HK$0.016 per rights share on the basis of seventeen rights shares for every two existing shares held by members on the register of members on 8 February 2002 was made by the Company, with bonus warrants on the basis of one bonus warrant for every five rights shares taken up. The transaction was completed on 5 March 2002 and the proceeds of HK$109,128,043, before expenses, were received by the Company. 1,364,100,532 bonus warrants at an initial subscription price of HK$0.01 per share were issued.

Further details of the rights issue with bonus warrants are set out in the prospectus of the Company dated 11 February 2002.

(c) Pursuant to ordinary resolutions passed on 4 February 2002, the Group entered into an acquisition agreement (the "Grandmax Agreement") with a director of the Company to acquire the entire issued share capital of Grandmax International Limited ("Grandmax"), a company incorporated in the British Virgin Islands with limited liability, for a cash consideration of HK$36,000,000. As a consequence of which the Group acquired the remaining outstanding 49% minority interest in Wiseford Ltd. and whereby Wiseford Ltd. became a wholly-owned subsidiary. The business of Wiseford Ltd. and its subsidiaries which was recently established in September 2001, includes the provision of callings cards in Hong Kong, retail sale of telecommunication products in Hong Kong and the PRC, wholesale of handsets in the PRC, the provision of virtual office services through online business solutions, provision of long distance call services in Hong Kong and the PRC and the installation of callings and broadband services in the PRC. The transaction constituted a connected and discloseable transaction and was approved by independent shareholders of the Company on 4 February 2002. The transaction, which was completed on 5 March 2002, has resulted in goodwill of approximately HK$35,960,000, which will be capitalised and amortised over a period of five years on the straight-line basis.

(d) Pursuant to ordinary resolutions passed on 4 February 2002, the Group entered into another acquisition agreement (the "Magna Steels Agreement") with an independent third party to acquire the entire issued share capital of Magna Steels Co., Ltd., ("Magna"), a company incorporated in the British Virgin Islands with limited liability, for a cash consideration of HK$54,000,000. The principal assets of Magna Steel is its holding of a 35% equity interest in Seven Perfect Investment Co., Ltd. which in turn, beneficially owns the entire interest in Twin Faces Co. Ltd. ("Twin Faces"), a company incorporated in the British Virgin Islands. Twin Faces is principally engaged in management and consultancy services in an intelligent transport system in Shanghai, the PRC. The recovery of the Group's investment in Megna is expected to come from profits to be generated from these foregoing services which are to be provided by Twin Faces to Shanghai Ke Zhen Investment and Consultant Company Limited ("Shanghai Ke Zhen") which, in turn, is to provide such to parties in Shanghai, the PRC. Formal cooperation agreements between Shanghai Ke Zhen and its customer were signed in 2000 and 2001. However, the related services are not currently anticipated to begin operations until towards the end of 2002. The transaction was completed on 5 March 2002 and resulted in goodwill of approximately HK$53,992,000, which will be capitalised and thereafter amortised over a period of five years on the straight-line basis.

Notes to Financial Statements

31 December 2001

32. POST BALANCE SHEET EVENTS *(continued)*

Further details of the above post balance sheet events are set out in the circular of the Company dated 10 January 2002.

33. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

(i) A co-operation agreement was entered into between the Company and renren.com Holdings Limited, a related company in which certain directors of the Company have beneficial interests, under which renren.com Holdings Limited agreed to license its tradename of "renren.com" to the Group in return for a licence fee equal to the higher of US$100,000 (which had been reduced to US$15,000 with effect from 1 May 2001) or 5% of the gross receipts arising from the use of the tradename for each calendar month; and to provide technical consultation services and second employees to the Group in return for consideration based on cost plus 5 per cent..

	2001	2000
	HK$'000	*HK$'000*
Payments to renren.com Holdings Limited:		
Licence fee	**4,056**	6,238
Technical consultation services	**1,313**	7,920
Secondment of employees	**–**	11,691
	5,369	25,849

(ii) As further detailed in note 29(e)(ii) to the financial statements, the Group acquired certain computer equipment and software of HK$8,587,000 from a former related company by assignment of and transferring the obligations and liabilities under finance leases of HK$8,587,000 to the Group.

34. COMPARATIVE AMOUNTS

As further explained in notes 2 and 5 to the financial statements, due to the adoption of new and revised SSAPs and the disposals of ASL and AIL during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements and give more details about the Group's current business operations. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.