Notes To The Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

The Sun's Group Limited ("the Company") was incorporated in Bermuda on 20th September, 1993 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since January 1994. In May 2001, the Company changed its name from Pearl Oriental Cyberforce Limited to Pearl Oriental Holdings Limited. In May 2002, the Company further changed its name from Pearl Oriental Holdings Limited to The Sun's Group Limited, the present one (see Note 36.e).

The Company is an investment holding company. During the year ended 31st December, 2001, the Company's subsidiaries (which together with the Company are collectively referred to as "the Group") were principally engaged in property investment and development, financial services, telecommunications and internet businesses (see Note 16). Subsequent to the year end, the Group ceased its telecommunications and internet businesses (see Note 5).

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on the going concern basis.

For the year ended 31st December, 2001, the Group reported a loss attributable to shareholders of approximately $670,017,000. As at 31st December, 2001, the Group had a net working capital deficiency of approximately $1,044,276,000, and during the year ended 31st December, 2001, the Group's shareholders' equity was reduced substantially from approximately $731,657,000 to approximately $55,411,000. In addition, the Group has defaulted on repayment of principal and interest on its bank borrowings, totalling approximately $1,169,411,000 as at 31st December, 2001, which have been classified as current liabilities in the consolidated financial statements as at that date. Starting from May 2001, the Group's bankers have taken various actions including, but not limited to, the issuance of demand notices or writs of summons for immediate repayment of substantially all of the Group's bank borrowings, and the appointment of receivers in some cases who have obtained possession of certain properties which have been mortgaged to the banks as collateral for the bank borrowings.

As at 31st December, 2001, Mr. Wong Kwan, a director of the Company up to 29th January, 2002 and a substantial shareholder of the Company, had advanced to the Group approximately $96,924,000 to help finance the Group's operations (see Note 4.b). Subsequent to 31st December, 2001, Mr. Wong Kwan and another substantial shareholder of the Company, which became a substantial shareholder by acquiring its shareholding from Mr. Wong Kwan, advanced to the Group a total of approximately $43,450,000 to help finance the Group's operations (see Notes 4.b and 4.e). In addition, subsequent to 31st December, 2001, Mr. Wong Kwan waived certain amounts owing to him by the Group amounting to approximately $48,000,000 (see Note 4.b).

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Cont'd)*

In the absence of alternative sources of funding to settle its bank borrowings, the Group has been negotiating with the individual banks to restructure the repayment terms of certain of its bank borrowings, to convert some of its bank borrowings into shares and/or convertible notes to be issued by the Company, to release the Group from its obligations to repay some of its bank borrowings, and to provide new credit facilities to the Group. Details of the debt restructuring proposals submitted to the banks and the agreements reached with the banks up to the date of approval of these financial statements are summarised below:

(i) The Group repaid an amount of approximately $22 million to a bank in February 2002 and reached a standstill agreement with the bank in April 2002 with respect to the remaining balance of the bank borrowing (which amounted to approximately $337 million as at 31st December, 2001) until 31st May, 2002. The Group has submitted a debt restructuring proposal to the bank and is still negotiating with the bank in respect of the detailed terms of the proposal;

(ii) The Group repaid an amount of $5 million to a bank in March 2002 and is in the process of finalising an agreement with the bank to restructure the remaining balance of the bank borrowing (which amounted to approximately $103 million as at 31st December, 2001) into loans repayable according to an agreed schedule extending to 2012;

(iii) The Group repaid an amount of approximately $4 million to a bank in February 2002 and is currently negotiating with the bank to restructure the remaining balance of the bank borrowing (which amounted to approximately $49 million as at 31st December, 2001) into a 10-year installment loan extending to 2012;

(iv) The Group is negotiating with a bank to restructure outstanding bank borrowings which amounted to approximately $578 million as at 31st December, 2001. The debt restructuring proposal submitted to the bank involves, among others, the Group's intention to raise additional funds by way of a rights issue and placement of shares; and

(v) The Group gave consent to a bank for the bank to transfer an unsecured loan (which amounted to approximately $102 million as at 31st December, 2001) to a third-party non-bank company in connection with the bank's sale of the loan to the third-party non-bank company at a discount.

A substantial portion of the Group's trade and other payables were due for repayment as at 31st December, 2001. Due to the lack of liquidity, the Group has delayed repayment and is currently negotiating with the creditors to release the Group from its obligations to repay some of the amounts owing by the Group and to repay the remaining balance by installments.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Cont'd)*

Substantially all of the Group's properties (including investment properties, development properties, completed properties for sale and leasehold land and buildings) have been mortgaged to the banks as collateral for the Group's bank borrowings totalling approximately $1,169,411,000. As at 31st December, 2001, these properties were stated in the consolidated balance sheet with an aggregate amount of approximately $1,412,426,000, majority of which were stated at open market value as determined by independent qualified valuers. The valuations were prepared on the assumption that, among others, both the buyers and the sellers would be acting without compulsion and there will be a reasonable period for the marketing of the properties, the agreement of price and other terms and the completion of the sale. However, if the Group is forced to dispose of any of its properties within a short period of time, the Company's Directors and management are of the view that the ultimate amounts recoverable from these properties would be substantially less than the carrying amount as at 31st December, 2001.

The aforementioned factors raise substantial doubt about the Group's ability to continue as a going concern. The Company's Directors and management believe that continued support will be obtained from the Group's bankers and the Group's debt restructuring proposals will be accepted by its bankers and can be successfully implemented, that the Group will be able to obtain new financing to meet its financial obligations as they fall due, that the Group's properties can be realised at their book carrying value, and the Group's future operations will be successful. Accordingly, the financial statements have been prepared on the going concern basis. Should the continuing support of the bankers, successful restructuring of repayment and additional financing not be forthcoming and/or should the Group's future operations not be successful, the Group would be unable to realise the carrying value of the majority of its assets and repay its creditors, including the banks.

3. PRINCIPAL ACCOUNTING POLICIES

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

a. Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by stating investment properties at open market value as explained in Note 3.l.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

Effective from the year ended 31st December, 2001, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 10 (revised)	Accounting for investments in associates
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The effects of changes in the Group's accounting policies resulting from the adoption of these new SSAPs are set out below:

(i) SSAP 26 – Segment reporting

The Group has disclosed segment information in Note 32 to the financial statements.

(ii) SSAP 30 – Business combinations

Prior to 1st January, 2001, goodwill was eliminated against reserves in the year in which it arose. With the introduction of SSAP 30, goodwill arising on or after 1st January, 2001 is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated economic life. The Group has taken advantage of the transitional provisions in SSAP 30 whereby all goodwill arising from acquisitions before 1st January, 2001, previously eliminated against reserves, has not been restated, and any subsequent impairment of such goodwill is recognised in the income statement in accordance with SSAP 31 – Impairment of assets. Following the transitional provisions of SSAP 30, where an impairment loss has arisen since the date of acquisition on goodwill previously eliminated against reserves, this change in accounting policy for recognition of goodwill impairment has been applied retrospectively and the impairment losses have been recognised as a prior year adjustment in accordance with SSAP 2 – Net profit or loss for the period, fundamental errors and changes in accounting policies. In this respect, impairment losses of approximately $236,019,000 on goodwill previously eliminated against reserves have been assessed by the Group, of which approximately $51,260,000 related to 2000 and has been recorded in the income statement of that year. The balance of approximately $184,759,000 related to years prior to 2000 and has no impact on the 2000 financial statements as it had been previously eliminated against retained profit/accumulated deficit.

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

b. Adoption of new/revised Statements of Standard Accounting Practice *(Cont'd)*

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 – Accounting for investments in associates, SSAP 17 – Property, plant and equipment, SSAP 18 – Revenue, and SSAP 21 – Accounting for interests in joint ventures. The Company's Directors and management consider that the consequential changes made to the above SSAPs do not have a material impact on the consolidated financial statements of the Group.

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

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together "the Group"), together with the Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill is recognised as an asset in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

e. Subsidiaries

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

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

f. Associates

An associate is a company over which the Group has significant influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

g. Turnover and revenue recognition

Turnover represents (i) the contracted value for sale of properties; (ii) rental income from leasing of investment properties; (iii) revenue from hotel operations; (iv) fees for the provision of telecommunications services and internet services; and (v) interest income from loans receivable.

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

(i) Sale of properties is recognised upon completion of the sales contract. Payments received from purchasers prior to completion are recorded as deposits from customers.

(ii) Rental income from investment properties is recognised on a straight-line basis over the terms of the leases.

(iii) Revenue from hotel operations is recognised when the related services are rendered.

(iv) Revenue from the provision of telecommunications services and internet services is recognised when the related services are rendered. Deposits or advance payments from customers prior to provision of services are recorded as deferred income.

(v) Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

(vi) Gain or loss from sale of investment in securities is recognised on the trade date.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

h. Taxation

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

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

i. Staff retirement benefits

Costs of staff retirement benefits are recognised as an expense in the period in which the staff's services are rendered.

j. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

k. Properties and equipment and depreciation

Properties and equipment are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of properties and equipment which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2% (lease term)
Buildings	4%
Operating equipment	33% to 50%
Furniture and office equipment	15% to 30%
Motor vehicles and vessels	20% to 30%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from properties and equipment.

Gains and losses on disposal of properties and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

l. Investment properties

Investment properties are interests in leasehold land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in value of investment properties are dealt with in the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is recognised as an expense in the income statement. When an investment property is disposed of, previously recognised revaluation surpluses, if any, are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost or the then carrying value of the investment property.

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

m. Development properties

Development properties include interests in leasehold land and buildings under development, and are stated at cost less any impairment loss. The cost of development properties includes the original costs of leasehold land and buildings, development and construction expenditures incurred, borrowing costs directly attributable to construction of such properties and other direct costs. No depreciation is provided for development properties.

n. Loans receivable

Loans to customers together with accrued interest are stated in the balance sheet after deducting specific and general provisions for possible loan losses. Specific provisions are made against the outstanding balance of loans where, in the opinion of management, recovery is doubtful. General provisions relate to exposures not specifically identified but known from experience to exist in the current portfolio. The provisions made are based on estimates made by management and are reviewed periodically. Adjustments are made when considered necessary.

o. Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less selling and marketing expenses.

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

p. Inventories

Inventories, primarily consisting of telecommunications equipment, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period when 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.

q. Impairment of assets

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

Reversal of impairment losses recognised in a prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

r. Provisions and contingencies

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

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

r. Provisions and contingencies *(Cont'd)*

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

s. Operating leases

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

t. Subsequent events

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

u. Foreign currency translation

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

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

v. Use of estimates

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

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. RELATED PARTY TRANSACTIONS

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

Significant transactions and balances with related parties are summarised as follows:

a. During the year ended 31st December, 2001, the Group paid professional fees totalling approximately $3,482,000 (2000 – $1,567,000) to Messrs. Siao, Wen and Leung under normal commercial terms. Messrs. Siao, Wen and Leung is a firm of solicitors where Mr. Carson Wen, a non-executive director of the Company up to 19th October, 2001, is a partner.

b. As at 31st December, 2001, the amount due to a former director of the Company of approximately $96,924,000 (2000 – $92,166,000) represented short-term advances from Mr. Wong Kwan (a director of the Company up to 29th January, 2002 and a substantial shareholder of the Company), together with accrued interest. Such amount was unsecured, bore interest at Hong Kong prime lending rate and had no pre-determined repayment terms. During the year ended 31st December, 2001, interest on these advances amounted to approximately $6,358,000 (2000 – $4,066,000).

   Subsequent to 31st December, 2001, Mr. Wong Kwan advanced to the Group an additional amount of approximately $10,000,000 and waived certain amounts owing to him by the Group of approximately $48,000,000. The remaining balance was replaced by a new shareholder loan, which is unsecured, bears interest at Hong Kong prime lending rate and is repayable by 29th July, 2002.

c. The outstanding balance with a related company was unsecured, non-interest bearing and had no pre-determined repayment terms.

d. In December 2001, the Group entered into an agreement to dispose of certain subsidiaries engaged in the telecommunications and internet businesses and certain other assets, with an aggregate net book value of approximately $9,161,000 as at 31st December, 2001, to Mr. Wong Kwan (a director of the Company up to 29th January, 2002 and a substantial shareholder of the Company) for cash consideration of $30,000,000. Completion of the disposal took place in February 2002.

e. Subsequent to 31st December, 2001, a substantial shareholder of the Company, which became a substantial shareholder by acquiring its shareholding from Mr. Wong Kwan, advanced to the Group a total of approximately $33,450,000, which is unsecured, bears interest at Hong Kong prime lending rate and is repayable by 29th July, 2002.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DISCONTINUING OPERATIONS

In October 2000, the Group entered into an agreement to dispose of its entire interest in Aniwell Investments Limited, which was engaged in hotel operations, for cash consideration of $100,000,000. Completion of the disposal took place on 29th January, 2001. Thereafter, the Group ceased its hotel operations business. The results of Aniwell Investments Limited for the period ended 29th January, 2001 and for the year ended 31st December, 2000 are presented as discontinuing operations in the consolidated income statement.

In December 2001, the Group entered into an agreement to dispose of certain subsidiaries engaged in the telecommunications and internet businesses (see Note 4.d). Completion of the disposal took place in February 2002. Thereafter, the Group ceased its telecommunications and internet businesses, the results of which are presented as discontinuing operations in the consolidated income statement for the year ended 31st December, 2001. The consolidated income statement for the year ended 31st December, 2000 has been restated to present the results of the Group's telecommunications and internet businesses as discontinuing operations.

The results of the discontinuing operations were:

	2001 *$'000*	2000 *$'000*
Turnover	**175,860**	112,230
Cost of sales	**(131,561)**	(84,917)
Gross profit	**44,299**	27,313
Other revenue	**28,825**	669
Selling and marketing expenses	**(524)**	(14,233)
General and administrative expenses	**(63,264)**	(97,064)
Other operating expenses	**(2,721)**	(133,590)
Impairment of goodwill	**–**	(51,260)
Profit (loss) from operations	**6,615**	(268,165)
Finance costs	**(7,755)**	(8,526)
Share of loss of associates	**(832)**	(25,077)
Loss before taxation	**(1,972)**	(301,768)
Taxation	**1,171**	306
Loss after taxation but before minority interests	**(801)**	(301,462)
Minority interests	**(52)**	29,980
Loss attributable to shareholders	**(853)**	(271,482)

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2001	2000
	$'000	*$'000*
Continuing operations –		
Property investment and development	292,085	215,287
Financial services, including money lending	7,461	564
	299,546	215,851
Discontinuing operations –		
Hotel operations	940	13,525
Telecommunications services	159,938	65,847
Internet services	14,982	32,858
	175,860	112,230
Total turnover	475,406	328,081
Gain on disposal of investment in securities	–	11,199
Gain on disposal of subsidiaries	24,856	–
Net gain on disposal of properties and equipment	3,304	–
Write-back of provision for doubtful receivables	–	10,000
Interest income from bank deposits	1,874	1,288
Others	3,172	582
Total other revenue	33,206	23,069
Total revenue	508,612	351,150

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. OTHER OPERATING EXPENSES

Other operating expenses in the consolidated income statement consisted of:

	2001 *$'000*	2000 *$'000*
Continuing operations –		
Deficit on revaluation of investment properties, net of write-back of deferred taxation of approximately $1,818,000 in 2000	**(64,797)**	(49,320)
Impairment losses of development properties and completed properties for sale	**(176,750)**	(507,771)
Provision for/Write-off of bad and doubtful loans receivable, after consideration of the value of the underlying collateral	**–**	(211,794)
Loss on disposal/Impairment loss of long-term investment, after consideration of the value of the underlying assets of the investee	**(12,855)**	(8,400)
Provision for advances to associates	**(2,190)**	–
Loss on investment in securities	**(39)**	(2,362)
	(256,631)	(779,647)
Discontinuing operations –		
Loss on revaluation of hotel property	**–**	(100,014)
Loss on disposal of subsidiaries	**(1,731)**	–
Impairment loss of telecommunications equipment	**–**	(26,564)
Provision for advances to associates	**(990)**	(7,012)
	(2,721)	(133,590)
	(259,352)	(913,237)

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging the following items, other than revenue disclosed in Note 6 and other operating expenses disclosed in Note 7:

	2001 *$'000*	2000 *$'000*
Interest on		
– bank overdrafts and loans wholly repayable within five years	132,299	181,044
– short-term advances from a former director	6,358	4,066
– loan payable	824	–
	139,481	185,110
Less:		
– amounts included in cost of sales	(29,168)	(62,438)
– amounts capitalised in relation to development properties *	(84,890)	(85,556)
	25,423	37,116
Cost of inventories and services	789,298	366,695
Staff costs (including directors' emoluments)	45,015	50,565
Operating lease rentals in respect of premises	5,431	6,463
Provision for bad and doubtful trade receivables	49	3,234
Depreciation of properties and equipment	9,450	18,563
Net loss on disposal of properties and equipment	–	800
Net exchange loss	52	2,063
Auditors' remuneration	1,300	1,388

* *The average interest rate of borrowing costs capitalised for the year ended 31st December, 2001 was approximately 11.7% per annum (2000 – 10.4% per annum).*

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001 *$'000*	2000 *$'000*
Fees for		
– executive directors	–	–
– non-executive director	200	100
– independent non-executive directors	150	200
Other emoluments for executive directors		
– Basic salaries and allowances	6,042	4,391
– Bonuses	–	980
– Retirement scheme contributions	35	–
	6,427	5,671

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

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

	2001	2000
Executive directors		
– Nil to $1,000,000	2	1
– $1,000,001 to $1,500,000	–	1
– $1,500,001 to $2,000,000	1	–
– $3,000,001 to $3,500,000	1	–
– $3,500,001 to $4,000,000	–	1
	4	3
Non-executive director /Independent non-executive directors		
– Nil to $1,000,000	4	4
	8	7

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

b. Details of emoluments of the five highest paid individuals (including directors and other employees) are:

	2001 $'000	2000 $'000
Basic salaries and allowances	6,877	6,685
Bonuses	–	980
Retirement scheme contributions	59	–
	6,936	7,665

Three (2000 – Two) of the highest paid individuals were directors of the Company, whose emoluments are included in Note 9.a.

During the year, no emolument of the five highest paid individuals (including directors and other employees) was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2001	2000
Nil to $1,000,000	3	3
$1,000,001 to $1,500,000	–	1
$1,500,001 to $2,000,000	1	–
$3,000,001 to $3,500,000	1	–
$3,500,001 to $4,000,000	–	1
	5	5

10. TAXATION

Taxation in the consolidated income statement consisted of:

	2001 $'000	2000 $'000
Current taxation –		
Hong Kong profits tax		
– Provision for current year	(45)	–
– Write-back of over-provision in prior years	1,077	7,527
– Refund	–	3,705
Canadian income tax		
– Write-back of over-provision in prior years	1,171	–
	2,203	11,232

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. TAXATION *(Cont'd)*

The Company is exempt from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at 16% of the assessable profit arising in or deriving from Hong Kong. No overseas taxation was provided as the subsidiaries operating overseas had no taxable income during the year.

For the year ended 31st December, 2001, unprovided deferred taxation, primarily representing the tax effect of the current year tax loss, amounted to approximately $68,028,000 (2000 – $77,988,000).

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31st December, 2001, the consolidated loss attributable to shareholders included a loss of approximately $674,625,000 (2000 – $1,201,127,000) dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2001 was based on the consolidated loss attributable to shareholders of approximately $670,017,000 (2000 – 1,162,465,000) and on the weighted average number of approximately 13,418,040,000 shares (2000 – 13,402,917,000 shares) in issue during the year.

No diluted loss per share is presented as the outstanding share options were anti-dilutive.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. PROPERTIES AND EQUIPMENT

a. Movements of properties and equipment (consolidated) were:

	2001						2000
	Hotel property *$'000*	Leasehold land and buildings *$'000*	Operating equipment *$'000*	Furniture and office equipment *$'000*	Motor vehicles and vessels *$'000*	Total *$'000*	Total *$'000*
Cost or Valuation							
Beginning of year	100,000	80,729	72,146	8,604	28,251	289,730	352,287
Attributable to acquisition of subsidiaries	–	–	–	–	–	–	23,053
Attributable to disposal of subsidiaries	(100,000)	–	(8,109)	(3,243)	–	(111,352)	–
Additions	–	39	5,161	222	–	5,422	17,239
Disposals	–	(1,081)	(7,831)	(525)	(2,670)	(12,107)	(2,835)
Deficit on revaluation	–	–	–	–	–	–	(100,014)
Translation adjustments	–	–	(1,260)	–	–	(1,260)	–
End of year	–	79,687	60,107	5,058	25,581	170,433	289,730
Representing:							
At cost	–	79,687	60,107	5,058	25,581	170,433	189,730
At valuation	–	–	–	–	–	–	100,000
	–	79,687	60,107	5,058	25,581	170,433	289,730
Accumulated depreciation/ impairment loss							
Beginning of year	–	5,199	53,668	4,043	27,833	90,743	47,621
Provision for the year	–	975	7,047	1,188	240	9,450	18,563
Attributable to disposal of subsidiaries	–	–	(7,319)	(1,885)	–	(9,204)	–
Disposals	–	(433)	(6,957)	(190)	(2,670)	(10,250)	(2,005)
Translation adjustments	–	–	(120)	(23)	–	(143)	–
Impairment loss	–	–	–	–	–	–	26,564
End of year	–	5,741	46,319	3,133	25,403	80,596	90,743
Net book value							
End of year	–	73,946	13,788	1,925	178	89,837	198,987
Beginning of year	100,000	75,530	18,478	4,561	418	198,987	304,666

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. PROPERTIES AND EQUIPMENT *(Cont'd)*

b. Leasehold land and buildings:

The geographical location and tenure of title of land and buildings are analysed as follows:

	2001	2000
	$'000	*$'000*
Hong Kong		
– long-term leases	73,946	75,297
– medium-term leases	–	233
	73,946	75,530

All of the leasehold land and buildings are mortgaged as collateral for the Group's banking facilities (see Note 35).

14. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2001	2000
	$'000	*$'000*
Beginning of year	467,150	658,100
Disposals	(33,553)	(139,812)
Deficit on revaluation	(64,797)	(51,138)
End of year	368,800	467,150

The geographical location and tenure of title of investment properties are analysed as follows:

	2001	2000
	$'000	*$'000*
Hong Kong		
– long-term leases	304,800	387,150
– medium-term leases	64,000	80,000
	368,800	467,150

Investment properties are stated at open market value at 31st December, 2001 as determined by Vigers Hong Kong Limited, independent qualified valuers. Investment properties of approximately $368,000,000 (2000 – $465,250,000) are mortgaged as collateral for the Group's banking facilities (see Note 35).

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT PROPERTIES *(Cont'd)*

Investment properties with a carrying amount of approximately $100,100,000 (2000 – Nil) as at 31st December, 2001, are in the possession of one of the Group's bankers as mortgagee as a result of the Group's default on repayment of its bank borrowings as described in Note 2.

Details of the investment properties as at 31st December, 2001 are as follows:

Location	Group's interest	Existing use
Shop 1 & 2 on Ground Floor, Car Parking Spaces No.1 & 2 on Ground Floor, 8, 9, 11, 13 & 15 on 1st Floor, 28, 29, 30, 31, 32, 33, 35, 36 & 38 on 2nd Floor, 39, 40, 41, 43, 45, 46, 48, & 49 on 3rd Floor, 60, 61, 62 & 63 on 4th Floor, Flat Roof on 4th Floor, 9th, 10th, 13th, 16th, Unit 1702 on 17th, 22nd, 23rd and 26th Floor, Roof and Upper Roof and External Walls of Pearl Oriental Centre, No. 200 Gloucester Road, Wanchai, Hong Kong	100%	Commercial
2nd, 3rd, 8th, 9th, 10th, 11th, 13th, 14th, 17th and 18th Floor, Pearl Oriental Tower, No. 225 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong	100%	Commercial
15th Floor, Pearl Oriental House, Nos. 58 to 64 Stanley Street, Central, Hong Kong	100%	Commercial

15. DEVELOPMENT PROPERTIES

Movements of development properties (consolidated) were:

	2001 *$'000*	2000 *$'000*
Beginning of year	1,600,000	1,950,000
Additions	128,832	154,352
Disposal *	(582,216)	–
Impairment loss, representing deficit on revaluation	(176,616)	(504,352)
End of year	970,000	1,600,000
Classified under :		
Non-current assets	650,000	320,000
Current assets	320,000	1,280,000
	970,000	1,600,000

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. DEVELOPMENT PROPERTIES *(Cont'd)*

Development properties are classified as current assets in cases where the Group intends and has specific plans to dispose of the properties; otherwise they are classified as non-current assets.

The geographical location and tenure of development properties are analysed as follows:

	2001 *$'000*	2000 *$'000*
Hong Kong		
– long-term leases	650,000	1,280,000
– medium-term leases	320,000	320,000
	970,000	1,600,000

* *Due to the Group's default on repayment of its bank borrowings, development properties with a carrying amount of approximately $582,216,000 were possessed by a bank and disposed of during the year for a consideration of approximately $230,000,000, resulting in a loss of approximately $352,216,000, which is included in the gross loss in the consolidated income statement.*

Impairment loss on development properties was determined based on the open market value of the properties as at 31st December, 2001, which was determined by Vigers Hong Kong Limited, independent qualified valuers. All of the development properties are mortgaged as collateral for the Group's banking facilities (see Note 35).

Details of the development properties as at 31st December, 2001 were as follows:

Location	Group's interest	Stage of construction	Expected completion date	Expected use	Gross floor area *(square meters)*
Pearl Grand Parc & Hotel, Nos. 304-314 Des Voeux Road West, Sai Ying Pun, Hong Kong	65%	In process of conversion into hotel property	End of 2002	Hotel	14,405
Skyhigh, 10 Pollock Path, The Peak, Hong Kong	100%	In process of site formation and foundation work	Early 2004	Residential	2,034

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES

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

	2001 *$'000*	2000 *$'000*
Unlisted shares, at cost	**295,570**	295,570
Due from subsidiaries	**2,871,925**	2,881,715
Due to subsidiaries	**–**	(8,470)
	3,167,495	3,168,815
Less: Impairment loss	**(3,108,471)**	(2,437,697)
	59,024	731,118

All outstanding balances with subsidiaries were unsecured, non-interest bearing and without pre-determined repayment terms.

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

Details of the principal subsidiaries as at 31st December, 2001, all held indirectly by the Company except Pearl Enterprises (B.V.I.) Limited, were:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
AIC Asia International Services Corp.	Canada	CAD567,500	49% (i)	Telecommunication services and investment holding
AIC Asia International Services (Alberta) Corp.	Canada	CAD10,000	49%(i)	Telecommunication services
AIC Asia International Services (Ontario) Corp.	Canada	CAD1,000	49%(i)	Telecommunication services
AIC (Asia Pacific) Limited	British Virgin Islands	US$92	51%	Investment holding
AIC Canada (Hong Kong) Limited	Hong Kong	$100	51%	Telecommunication services
AIC Telecom (UK) Limited	The United Kingdom	£10,000	51%	Telecommunication services
AICOM Data Services Inc.	Canada	CAD100	49% (i)	Provision of internet access services

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Asia Business Communications, Inc.	The United States of America	US$8,000,000	65%	Telecommunication services
Best Chance Industries Limited	Hong Kong	$2	100%	Investment holding
Champking Investment Limited	Hong Kong	$2	100%	Property investment
Charter Enterprises (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Cosine Systems Limited	British Virgin Islands	US$1	100%	Investment holding
Crown Score Investment Limited	Hong Kong	$10,000	100%	Investment holding
Cybertimes Network Hong Kong Limited	Hong Kong	$1,000,000	70%	Internet portal
E-Link Technology Limited	British Virgin Islands	US$1	100%	Investment holding
E-Tech Canada Limited	Canada	Common CAD1,000	70%	Chinese medicine health portal
		Preference CAD201,559	70%	
Ebid International Limited	Hong Kong	$21,600,000	60%	Internet auction and e-commerce
Elffa Limited	Hong Kong	$10,000	100%	Investment holding
Fair Capital Properties Limited	Hong Kong	$10,000	100%	Property investment
Goldkey Industries Limited	Hong Kong	$10,000	100%	Property investment
Grandcyber Corporation Limited	Hong Kong	$10,000	100%	Investment holding
Grandcyber Corporation Limited	Cayman Islands	$0.1	100%	Investment holding
Halmaro Enterprises Limited	Hong Kong	"A" Share $200	100%	Property investment
Healthforce Inc.	British Virgin Islands	US$1	100%	Investment holding

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Healthphone Corporation	British Virgin Islands	US$1,000,000	70%	Investment holding
Jade Capital Industrial Limited	Hong Kong	$30,000,000	100%	Investment holding
Lucky Ocean International Limited	Hong Kong	$2	100%	Property investment
Lucky Rainbow Limited	Hong Kong	$2	100%	Property development
Margaux Capital Asia Limited	Hong Kong	$6,000,000	100%	Investment advisory
Margaux Capital Limited	Hong Kong	$2	100%	Investment holding
Margaux Finance Limited	Hong Kong	$100,000,000	100%	Money lending and financial advisory services
Mobile One Limited	Hong Kong	$10,000,000	100%	Telecommunication services
Pearl Capital & Marketing (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Pearl Century Limited	Hong Kong	$2	100%	Property investment and development
Pearl Development (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Pearl Enterprises (B.V.I.) Limited	British Virgin Islands	US$10,000	100%	Investment holding
Pearl Fame Development Limited	Hong Kong	$2	100%	Property investment and development
Pearl Glorious Investment Limited	Hong Kong	Ordinary $10,000 Deferred $20,000,000 (ii)	100% –	Investment holding, property investment, project management and consultancy
Pearl Hospitality Investment (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Pearl International Hotels Limited	Hong Kong	$1,000,000	100%	Hotel management and consultancy services and investment holding
Pearl International Hotels (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Pearl Jiu Information Technology Limited (iii)	Mainland China	RMB 4,000,000	60%	Development of hospital management information systems
Pearl Oriental (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Pearl Oriental Telecom & Technology (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Pearl Oriental Telecom & Technology Limited	Hong Kong	$2	100%	Telecommunication services
Pearl Property Management Limited	Hong Kong	$2	100%	Property management services
Rossmore Profits Limited	British Virgin Islands	US$1	100%	Investment holding
Rowell Services Limited	British Virgin Islands	US$1,300,000	65%	Investment holding
Silver Industries Limited	Hong Kong	$10,000	100%	Property investment
Sinobase Services Limited	Hong Kong	$2	100%	Motor vehicle rental
Starboom Corporation Limited	Hong Kong	$2	65%	Internet portal
Super Delight Enterprises Limited	British Virgin Islands/ Hong Kong	US$100	65% (see Note 36.a)	Property investment and development
Terrific Hit Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100%	Property investment
Tonmore Industrial Limited	Hong Kong	$10,000	100%	Investment holding
Wise Tech Overseas Limited	British Virgin Islands	US$1	100%	Investment holding
Well Team Development Limited	Hong Kong	$10,000	100%	Motor vessel rental
Win Chance Limited	British Virgin Islands/ Hong Kong	US$2	100%	Property investment
Win Oriental Investment Limited	Hong Kong	$2	100%	Property investment
Y2K Investment Group Limited	British Virgin Islands	US$150	51%	Investment holding

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Notes –

i. The Group's interests in these companies are held through subsidiaries in which the Group holds more than 50% of their issued voting share capital.

ii. The non-voting deferred shares are not owned by the Group. These shares have no voting rights, are not entitled to dividends unless the net profit of the company exceeds $1,000,000,000, and are not entitled to any distributions upon winding up unless a sum of $100,000,000,000 has been distributed by the company to the holders of its ordinary shares.

iii. Pearl Jiu Information Technology Limited is an equity joint venture established in Mainland China to be operated for 50 years to 2049.

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

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

17. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2001 *$'000*	2000 *$'000*
Unlisted shares, at cost	50,569	65,713
Goodwill on acquisition, eliminated against reserves	(48,103)	(48,103)
Share of net assets at the time of acquisition	2,466	17,610
Share of undistributed post-acquisition profits less losses	(33,723)	(48,038)
	(31,257)	(30,428)
Advances to associates	179,306	182,201
Advances from associates	(51)	(51)
	147,998	151,722
Less: Provision against advances	(147,043)	(150,875)
	955	847

All outstanding balances with associates were unsecured, non-interest bearing and without pre-determined repayment terms.

17. INVESTMENT IN ASSOCIATES *(Cont'd)*

The underlying value of the investment in associates was, in the opinion of the Company's Directors and management, not less than the carrying value as at 31st December, 2001.

Details of the associates as at 31st December, 2001, all held indirectly by the Company, were:

Name	Place of incorporation/ operations	Percentage of equity interest held	Principal activities
CariPAC. Com International Limited	Hong Kong	25%	Provision of internet access platform and technology
Lancelot Holdings Limited	Hong Kong	50%	Trading of telecommunication equipment
999 E-Tech Inc.	Canada	35%	Operating of Chinese medical clinic

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

18. LOANS AND OTHER RECEIVABLES

Details of loans and other receivables (consolidated) are:

	2001 *$'000*	2000 *$'000*
Loans receivable from money lending activities		
– Secured	–	560,400
– Unsecured	**348,134**	260,174
	348,134	820,574
Less: Provision for doubtful loans receivable	**(348,133)**	(541,727)
	1	278,847
Other receivable*	**26,739**	34,834
	26,740	313,681

* *The balance represents a receivable from a minority shareholder of a subsidiary and is unsecured, non-interest bearing and without pre-determined repayment terms.*

19. COMPLETED PROPERTIES FOR SALE

Movements of completed properties for sale (consolidated) were:

	2001	2000
	$'000	*$'000*
Beginning of year	13,000	75,518
Disposals	(12,386)	(59,099)
Impairment loss, representing deficit on revaluation	(134)	(3,419)
End of year	480	13,000

Impairment loss on completed properties for sale was determined based on the open market value of the properties as at 31st December, 2001, which was determined by Vigers Hong Kong Limited, independent qualified valuers. All completed properties for sale are located in Hong Kong, held under medium-term leases and mortgaged as collateral for the Group's banking facilities (see Note 35).

20. TRADE RECEIVABLES

The aging analysis of trade receivables (consolidated) is as follows:

	2001	2000
	$'000	*$'000*
0 to under 1 month	3,567	11,885
1 to under 2 months	1,886	2,273
2 to under 3 months	750	506
Over 3 months	1,276	5,097
	7,479	19,761
Less: Provision for bad and doubtful trade receivables	(1,066)	(3,234)
	6,413	16,527

Consideration in respect of sale of properties is payable by purchasers pursuant to the terms of the sale and purchase agreements. Rental income in respect of leased properties is payable in advance by the tenants on a monthly basis. Interest income from loans receivable is payable by borrowers pursuant to the terms of the loan agreements. The Group provides credit terms to customers of its telecommunication and internet businesses in accordance with the Group's credit policies ranging from cash sales to a credit period of one to two months.

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. SHORT-TERM BANK BORROWINGS

Details of short-term bank borrowings are:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Overdrafts	**15,851**	20,677	**–**	41
Short-term loans	**124,701**	146,174	**–**	–
Long-term loans, current portion (Note 24)	**900,808**	1,369,102	**–**	–
Accrued interest payable	**128,051**	76,118	**–**	–
	1,169,411	1,612,071	**–**	41

Short-term bank borrowings (excluding the current portion of long-term loans) bear interest at rates ranging from 6% to 15% per annum (2000 – 9% to 13% per annum). Refer to Note 35 for details of the Group's banking facilities. Refer to Note 2 for details of the Group's default on repayment of its bank borrowings.

22. LOAN PAYABLE

The loan payable of approximately $12,424,000 (2000 – Nil) is unsecured, bears interest at 1% per month and is repayable within the next twelve months.

23. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
0 to under 1 month	**4,252**	10,386	**–**	57
1 to under 2 months	**6,799**	12,032	**–**	84
2 to under 3 months	**3,988**	11,488	**–**	74
3 to under 12 months	**13,294**	47,261	**–**	72
Over 12 months	**41,257**	10,264	**–**	708
	69,590	91,431	**–**	995

24. LONG-TERM BANK LOANS

Details of long-term bank loans (consolidated) are:

	2001 *$'000*	2000 *$'000*
Amounts repayable within a period		
– not exceeding one year	783,145	1,235,567
– more than one year but not exceeding two years	17,252	26,765
– more than two years but not exceeding five years	48,231	55,373
– more than five years	52,180	51,397
	900,808	1,369,102
Less: Amounts repayable within one year included under short-term bank borrowings (Note 21)	(783,145)	(1,235,567)
Amounts included under short-term bank borrowings as a result of default in repayment (Notes 2 and 21)	(117,663)	(133,535)
	–	–

Long-term bank loans bear interest at rates ranging from 6% to 15% per annum (2000 – 9% to 13% per annum). Refer to Note 35 for details of the Group's banking facilities. Refer to Note 2 for details of the Group's default on repayment of its bank borrowings.

25. DEFERRED TAXATION

As at 31st December, 2001, unprovided deferred taxation, primarily representing the benefit of the cumulative tax losses, amounted to approximately $220,673,000 (2000 – $152,645,000).

26. MINORITY INTERESTS

Minority interests consisted of:

	2001 *$'000*	2000 *$'000*
Share of subsidiaries' net assets	9,779	9,727
Advances from a minority shareholder of a subsidiary	126	126
	9,905	9,853

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. SHARE CAPITAL

Movement in share capital was:

	2001		2000	
	Number of shares '000	Nominal value $'000	Number of shares '000	Nominal value $'000
Authorised (ordinary shares of $0.1 each) –				
Beginning of year	20,000,000	2,000,000	15,000,000	1,500,000
Increase in authorised share capital	–	–	5,000,000	500,000
End of year	20,000,000	2,000,000	20,000,000	2,000,000
Issued and fully paid (ordinary shares of $0.1 each) –				
Beginning of year	13,418,040	1,341,804	13,250,540	1,325,054
Issue for acquisition of subsidiaries	–	–	167,500	16,750
End of year	13,418,040	1,341,804	13,418,040	1,341,804

28. SHARE OPTION SCHEME

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

Movements of share options during the year ended 31st December, 2001 were:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
31st December, 1999	1st July, 2000 to 30th June, 2002	$0.234	100,000,000	–	(31,760,000)	–	68,240,000

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES

Movements of reserves were:

	2001					2000
	Share premium	Contributed surplus	Capital reserve	Cumulative translation adjustments	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Beginning of year	965,874	–	5,840	171	971,885	952,275
Disposal of subsidiaries	–	–	(4,814)	–	(4,814)	–
Translation adjustments	–	–	–	(1,415)	(1,415)	180
Premium arising from issuance of shares	–	–	–	–	–	19,430
End of year	965,874	–	1,026	(1,244)	965,656	971,885
Company						
Beginning of year	965,874	160,670	–	–	1,126,544	1,107,114
Premium arising from issuance of shares	–	–	–	–	–	19,430
End of year	965,874	160,670	–	–	1,126,544	1,126,544

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31st December, 2001, the Company had no distributable reserves.

30. ACCUMULATED DEFICIT

Accumulated deficit consisted of:

	2001 *$'000*	2000 *$'000*
Company	(2,412,948)	(1,738,323)
Subsidiaries	194,622	204,329
Associates	(33,723)	(48,038)
	(2,252,049)	(1,582,032)

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of loss before taxation to net cash inflow from operating activities:

	2001 *$'000*	2000 *$'000*
Loss before taxation	(672,168)	(1,203,677)
Interest income	(1,874)	(1,288)
Interest expense less amount capitalised	54,591	99,554
Share of loss of associates	832	25,077
Impairment of goodwill	–	51,260
Depreciation and impairment loss of properties and equipment	9,450	45,127
Net (gain) loss on disposal of properties and equipment	(3,304)	800
Net gain on disposal of subsidiaries	(23,125)	–
Deficit on revaluation of investment properties and hotel property, impairment losses of development properties and completed properties for sale and loss on disposal/impairment loss of long-term investment	254,402	665,505
Provision for/Write-off of bad and doubtful loans receivable	–	211,794
Loss on investment in securities	39	2,362
Provision for advances to associates	3,180	7,012
Loss on disposal of development properties	352,216	–
(Gain) Loss on disposal of investment properties	(3,957)	2,527
Gain on disposal of investment in securities	–	(11,199)
Write-back of provision for doubtful receivables	–	(10,000)
Write-back of provision for receivables from minority interests of a subsidiary	–	(2,700)
Proceeds from disposal of completed properties for sale	9,786	52,882
Loss on disposal of completed properties for sale	2,600	6,217
Decrease in loans and other receivables	286,941	11,552
Decrease in inventories	1,507	216
Decrease (Increase) in trade receivables	9,481	(2,908)
Decrease in prepayments and deposits	2,228	15,617
(Decrease) Increase in trade payables	(10,651)	33,407
Increase in accrued liabilities and other payables	32,491	4,974
(Decrease) Increase in deferred income and deposits from customers	(65,887)	70,451
Net cash inflow from operating activities	238,778	74,562

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

b. Details of disposal of subsidiaries are as follows:

	2001
	$'000
Net assets/liabilities disposed of –	
Properties and equipment	102,148
Inventories	61
Trade receivables	633
Prepayments and deposits	4,362
Cash and bank deposits	396
Trade payables	(11,190)
Accrued liabilities and other payables	(6,932)
Deferred income and deposits from customers	(6,670)
The Group's share of net assets	82,808
Realisation of the related capital reserve	(4,814)
Gain on disposal, net	23,125
Cash consideration received, net of direct costs of disposal	101,119

Net cash inflow in respect of the disposal is analysed as follows –

	2001
	$'000
Cash received	101,119
Cash and bank deposits disposed of	(396)
	100,723

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

c. Analysis of changes in financing is as follows:

	Share capital and share premium $'000	Bank loans $'000	Loan payable $'000	Due to a former director $'000	Due to related companies $'000	Minority interests $'000
1st January, 2000	2,271,498	1,679,102	–	–	4,602	20,712
Issuance of shares for acquisition of subsidiaries	36,180	–	–	–	–	–
Attributable to acquisition of subsidiaries	–	3,025	–	–	(8,143)	16,501
New bank loans	–	80,000	–	–	–	–
Repayment of bank loans	–	(245,328)	–	–	–	–
Increase in amount due to a former director	–	–	–	91,882	–	–
Increase in amount due to related companies	–	–	–	–	15,008	–
Repayment of amount due to related companies	–	–	–	–	(2,534)	–
Issuance of shares to minority interests of subsidiaries	–	–	–	–	–	2,620
Contribution from minority interests of a subsidiary	–	–	–	–	–	6,000
Contribution from minority interests of a subsidiary shared by the Group	–	–	–	–	–	(3,300)
Write-back of provision for receivables from minority interests of a subsidiary	–	–	–	–	–	(2,700)
Accrued interest	–	181,044	–	4,066	–	–
Repayment of interest	–	(106,449)	–	(3,782)	–	–
Share of loss for the year	–	–	–	–	–	(29,980)
1st January, 2001	2,307,678	1,591,394	–	92,166	8,933	9,853
New bank loans	–	77,021	–	–	–	–
Repayment of bank loans	–	(566,788)	–	–	–	–
Increase in loan payable	–	–	11,600	–	–	–
Increase in amount due to a former director	–	–	–	500	–	–
Repayment of amount due to a former director	–	–	–	(1,711)	–	–
Repayment of amount due to related companies	–	–	–	–	(8,806)	–
Accrued interest	–	132,299	824	6,358	–	–
Repayment of interest	–	(80,366)	–	(389)	–	–
Share of profit for the year	–	–	–	–	–	52
31st December, 2001	2,307,678	1,153,560	12,424	96,924	127	9,905

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

d. Analysis of cash and cash equivalents:

	2001 $'000	2000 $'000
Cash and bank deposits	9,962	18,343
Bank overdrafts	(15,851)	(20,677)
	(5,889)	(2,334)

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

a. Primary segment

	2001						
	Property investment and development $'000	Financial services $'000	Telecom-munications services $'000	Internet services $'000	Hotel operations $'000	Eliminations $'000	Total $'000
Turnover							
External	292,085	7,461	159,938	14,982	940	–	475,406
Inter-segment	6,314	–	–	–	–	(6,314)	–
Total turnover	298,399	7,461	159,938	14,982	940	(6,314)	475,406
Operating results							
Segment result	(617,553)	(29,092)	(7,884)	18,202	(3,703)		(640,030)
Unallocated corporate expenses							(5,883)
Finance costs							(25,423)
Share of loss of associates							(832)
Taxation							2,203
Loss after taxation but before minority interests							(669,965)
Other information							
Assets –							
Segment assets	1,420,913	309	56,769	1,512	36		1,479,539
Unallocated assets							25
							1,479,564
Liabilities –							
Segment liabilities	956,022	211,942	44,303	4,830	564		1,217,661
Unallocated liabilities							196,587
							1,414,248
Capital expenditures	44,149	–	5,131	84	–		49,364
Depreciation	2,276	41	7,049	84	–		9,450
Non-cash expenditures other than depreciation	241,547	2,190	124	866	–		244,727

Notes To The Financial Statements (Cont'd)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION *(Cont'd)*

a. Primary segment *(Cont'd)*

	2000						
	Property investment and development *$'000*	Financial services *$'000*	Telecom-munications services *$'000*	Internet services *$'000*	Hotel operations *$'000*	Eliminations *$'000*	Total *$'000*
Turnover							
External	215,287	564	65,847	32,858	13,525	–	328,081
Inter-segment	8,375	17,313	–	–	3,197	(28,885)	–
Total revenue	223,662	17,877	65,847	32,858	16,722	(28,885)	328,081
Operating results							
Segment result	(604,855)	(257,783)	(96,779)	(70,035)	(101,351)		(1,130,803)
Unallocated corporate expenses							(10,681)
Finance costs							(37,116)
Share of loss of associates							(25,077)
Taxation							11,232
Loss after taxation but before minority interests							(1,192,445)
Other information							
Assets –							
Segment assets	2,184,804	281,788	73,038	12,210	108,013		2,659,853
Unallocated assets							1,310
							2,661,163
Liabilities –							
Segment liabilities	1,142,908	515,941	52,012	25,693	21,070		1,757,624
Unallocated liabilities							162,029
							1,919,653
Capital expenditures	69,973	–	14,620	1,427	15		86,035
Depreciation	2,310	267	14,276	1,625	85		18,563
Non-cash expenditures other than depreciation	565,491	214,156	26,564	7,012	100,014		913,237

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SEGMENT INFORMATION *(Cont'd)*

b. Secondary segment

2001

	Hong Kong $'000	USA $'000	Canada $'000	Mainland China $'000	Unallocated $'000	Total $'000
Turnover	316,859	63,443	90,627	4,477	–	475,406
Segment result	(634,373)	(2,317)	(2,314)	(1,026)	–	(640,030)
Assets	1,420,160	39,211	19,031	1,137	25	1,479,564
Capital expenditures	44,149	3,265	1,919	31	–	49,364

2000

	Hong Kong $'000	USA $'000	Canada $'000	Mainland China $'000	Unallocated $'000	Total $'000
Turnover	260,404	35,739	23,965	7,973	–	328,081
Segment result	(1,075,852)	(21,540)	(4,751)	(28,660)	–	(1,130,803)
Assets	2,554,159	60,651	36,464	8,579	1,310	2,661,163
Capital expenditures	72,750	11,435	1,506	344	–	86,305

Notes To The Financial Statements (Cont'd)
(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

Capital commitments not provided for in the financial statements, which were authorised and contracted for, are analysed as follows:

	Consolidated		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Construction of development properties	27,479	123,150	–	–

b. Operating lease commitments

The Group had operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to March 2004, amounting to approximately $2,223,000 (2000 – $2,467,000). The total commitments are analysed as follows:

	Consolidated		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Amounts payable				
– within one year	1,442	1,603	–	–
– within two to five years	781	864	–	–
	2,223	2,467	–	–

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Leases expiring				
– within one year	412	547	–	–
– within two to five years	1,030	1,056	–	–
	1,442	1,603	–	–

33. COMMITMENTS AND CONTINGENT LIABILITIES *(Cont'd)*

c. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Corporate guarantees given by the Company in respect of banking facilities of its subsidiaries	**–**	–	**1,169,411**	1,534,232

34. RETIREMENT SCHEMES

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1st December, 2000 and make monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum contribution by each of the Group and the employees limited to $12,000 per annum. The assets of the fund are held separately from those of the Group and are managed by an independent professional fund manager.

As stipulated by rules and regulations in Canada, the Group contributes to the Canadian Pension Plan, a statutory pension scheme for all full-time employees in Canada. The Group and the employees each contribute approximately 4% of the basic salaries of the employees, with the annual earnings per employee subject to a minimum of CAD3,500 and the maximum pensionable annual earnings, which correspond to the average wage in Canada adjusted each January.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately $763,000 (2000 – $629,000).

35. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2001, the Group had aggregate banking facilities of approximately $1,169,411,000 (2000 – $1,613,141,000) from several banks for overdrafts and loans, which were fully utilised (2000 – unutilised facilities amounted to approximately $1,070,000).

These facilities were secured by:

(i) mortgages of the Group's leasehold land and buildings, investment properties, development properties and completed properties for sale with an aggregate net book value of approximately $1,412,426,000 (2000 – $2,253,780,000);

(ii) assignment of rental income generated by certain of the Group's investment properties;

35. BANKING FACILITIES AND PLEDGE OF ASSETS *(Cont'd)*

(iii) assignment of sales proceeds received from sales of completed properties for sale; and

(iv) corporate guarantees provided by the Company.

Due to the liquidity situation described in Note 2, the Group has defaulted on repayment of principal and interest on its bank borrowings, totalling approximately $1,169,411,000 as at 31st December, 2001. As a consequence, the Group's bankers have demanded immediate repayment of substantially all of the Group's bank borrowings and in some cases appointed receivers to obtain possession of certain properties which have been mortgaged to the banks as collateral for the bank borrowings. Refer to Note 2 for details of the debt restructuring proposals submitted to the banks and the agreements reached with the banks up to the date of approval of these financial statements.

36. SUBSEQUENT EVENTS

Other than as disclosed in Note 2, subsequent to 31st December, 2001, the following major transactions took place:

a. In January 2002, the minority shareholder of Super Delight Enterprises Limited, a 65% owned subsidiary as at 31st December, 2001, transferred its 35% equity interest in the subsidiary to the Group at no consideration. Thereafter, Super Delight Enterprises Limited has become a wholly-owned subsidiary of the Group.

b. In February 2002, the Group completed the disposal of certain subsidiaries engaged in the telecommunications and internet businesses and certain other assets, which had an aggregate net book value of approximately $9,161,000 as at 31st December, 2001, to Mr. Wong Kwan (a director of the Company up to 29th January, 2002 and a substantial shareholder of the Company) for cash consideration of $30,000,000.

c. On 26th March, 2002, the Company proposed a capital reduction plan pursuant to which the par value of each of its 13,418,040,000 ordinary shares in issue will be reduced from $0.1 to $0.001, its share premium will be reduced by approximately $409,937,000, and its accumulated deficit will be reduced by approximately $1,738,323,000. Moreover, the Company's 6,581,960,000 authorised but unissued ordinary shares with a par value of $0.1 each will be cancelled and replaced by 1,986,581,960,000 authorised but unissued ordinary shares with a par value of $0.001 each. The aforementioned proposals were approved by the Company's shareholders in a special general meeting held on 7th May, 2002, and have become effective from 8th May, 2002.

d. Between January and May 2002, Mr. Wong Kwan and another substantial shareholder of the Company, which became a substantial shareholder by acquiring its shareholding from Mr. Wong Kwan, advanced to the Group a total of approximately $43,450,000 (See Notes 4.b and 4.e). In addition, in January and April 2002, Mr. Wong Kwan waived certain amounts owing to him by the Group amounting to approximately $48,000,000 (see Note 4.b).

e. By a shareholders' resolution passed on 7th May, 2002, the Company changed its name to The Sun's Group Limited, the present one.