

Notes to the Financial Statements

For the year ended 31 December 2001

1. GENERAL

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost, as modified for revaluation of certain investments in securities as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2001.

The results of subsidiaries acquired or disposed of during the year are accounted for from the effective dates of acquisition or up to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill on consolidation

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

In respect of subsidiaries acquired before 1 January 2001, the related positive goodwill has been eliminated against reserves and, as permitted by the SSAP 30, has not been restated. Provision for impairment losses has been made against such goodwill in accordance with SSAP 31. For subsidiaries acquired on or after 1 January 2001, the related positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is carried as an asset in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

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

For the year ended 31 December 2001

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

Goodwill on consolidation *(Cont'd)*

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. In respect of subsidiaries acquired before 1 January 2001, the related negative goodwill has been credited to capital reserve. For subsidiaries acquired on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill up to the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of depreciable non-monetary assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

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

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision.

Associates

An associate is an enterprise, in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company. In the Company's balance sheet, investments in associates are stated at cost less provision, if necessary.

Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

Leasehold improvement	Over the remaining lease term
Office equipment, furniture and fittings	10% – 33%
Machinery and equipment	10% – 33%

Intangible assets

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

Investments in securities

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

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investments are included in the income statement.

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

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

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

For the year ended 31 December 2001

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

Impairment loss *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

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

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

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Operating leases

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Foreign currencies

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

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

Taxation

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

Cash equivalents

For the purpose of 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 balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

Related party

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Turnover		
Telecommunication services income	224,162	63,740
Corporate management services income	34,912	1,284
Sale of animated films	–	23,473
Others	4,822	11,628
	263,896	100,125
Other revenue		
Interest income	4,216	28,795
Income from unlisted investments	–	66
	4,216	28,861
Revenue	268,112	128,986

4. OTHER NET INCOME

	2001 HK\$'000	Group 2000 HK\$'000
Gain on disposal of investment securities	–	76,051
Gain on disposal of discontinued operations	–	23,210
Gain on disposal of subsidiaries	–	311
Others	–	336
	–	99,908

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

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

This is stated after charging:

	2001 HK\$'000	Group 2000 HK\$'000
(a) Finance costs		
Finance charges on obligations under finance leases	1,216	140
(b) Other items		
Amortisation of intangible assets included in other operating expenses	2,471	1,163
Auditors' remuneration	1,182	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Cost of inventories and services provided	214,038	72,570
Depreciation of property, plant and equipment:		
Owned assets	29,937	10,508
Assets held under finance leases	2,197	—
Intangible assets and goodwill written off:		
Intangible assets	44,208	—
Goodwill	70,587	—
Loss on disposal of other investments	3,807	—
Loss on disposal of property, plant and equipment	1,471	152
Loss on disposal of properties held for sale	2,111	—
Operating lease charges on premises	12,612	2,685
Staff costs	122,423	46,228

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2001 HK\$'000	2000 HK\$'000
Fees	—	—
Salaries, other emoluments and other benefits in kind	4,211	3,960
	4,211	3,960

No fees or emoluments were paid to the independent non-executive directors during the year (2000: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Cont'd)

In additions to the above emoluments, certain directors were granted share options under the Company's employee share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' Interests in Securities" in the Directors' Report.

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

The remuneration of directors was within the following bands:

HK\$	Number of directors	
	2001	2000
Nil	12	6
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
	14	8

No director waived or agreed to waive any remuneration during the year.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2000: two) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2000: three) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	4,981	3,370
Severance payment	325	–
	5,306	3,370

HK\$	Number of individuals	
	2001	2000
Nil – 1,000,000	–	1
1,000,001 – 1,500,000	–	2
1,500,001 – 2,000,000	3	–
	3	3

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

7. TAXATION

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

Taxation charge of HK\$739,000 for the year ended 31 December 2000 represented Peoples' Republic of China income tax calculated at the prevailing rate.

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

	2001	Group
	HK\$'000	2000
		HK\$'000
Excess of tax allowances over depreciation	504	1,830
Tax losses	(60,412)	(17,952)
	(59,908)	(16,122)

8. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net (loss)/profit attributable to shareholders includes a loss of the Company amounted to HK\$459,819,000 (2000: profit of HK\$31,713,000) which has been dealt with in the financial statements of the Company.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2001 was based on the consolidated loss attributable to shareholders of HK\$681,315,000 (2000: profit of HK\$1,302,000) and on the weighted average number of 1,940,200,731 (2000: 1,731,573,250) ordinary shares in issue during the year.

The fully diluted loss per share for 2001 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

The calculation of diluted earnings per share for 2000 was based on the consolidated profit attributable to shareholders of approximately HK\$1,302,000 and the diluted weighted average number of 1,825,717,799 ordinary shares. For the purposes of calculating the diluted weighted average number of shares, the dilutive potential ordinary shares resulting from the outstanding share options and convertible preference shares were deemed to be issued as if all outstanding options and convertible preference shares have been exercised on the date when the options and convertible preference shares were granted.

The comparative amount of the earnings per share and diluted earnings per share have been adjusted for the effect of the rights issue of 3,139,294,672 shares of the Company during the year.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

10. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2001	84,397	1,326	15,253	100,976
Additions	148,723	746	9,696	159,165
Disposals	(1,127)	(1,134)	(2,740)	(5,001)
At 31 December 2001	231,993	938	22,209	255,140
Accumulated depreciation				
At 1 January 2001	7,092	302	2,533	9,927
Charge for the year	25,386	267	6,481	32,134
Disposals	(844)	(337)	(1,168)	(2,349)
At 31 December 2001	31,634	232	7,846	39,712
Net book value				
At 31 December 2001	200,359	706	14,363	215,428
At 31 December 2000	77,305	1,024	12,720	91,049

The net book value of the Group's property, plant and equipment includes an amount of HK\$22,262,000 (2000: HK\$794,000) in respect of assets held under finance leases.

Company	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2001	11	1,625	1,636
Additions	–	534	534
Disposals	–	(130)	(130)
At 31 December 2001	11	2,029	2,040
Accumulated depreciation			
At 1 January 2001	4	448	452
Charge for the year	7	510	517
Disposals	–	(44)	(44)
At 31 December 2001	11	914	925
Net book value			
At 31 December 2001	–	1,115	1,115
At 31 December 2000	7	1,177	1,184

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	–	–
Due from subsidiaries	816,300	537,034
Less: Provision	(301,000)	–
	515,300	537,034

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

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
ZONE Group Inc.	Cayman Islands	US\$100	–	100%	Investment holding
ZONE Global Limited	British Virgin Islands	US\$1	–	100%	Investment holding
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd	Singapore	S\$100,000	–	100%	Provision of telecommunication services
ZONE USA, Inc.	United States of America	US\$10	–	100%	Investment holding
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunication services
E-Force Limited	Hong Kong	HK\$2	–	100%	Asset holding

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
EventClicks Global Limited	British Virgin Islands	US\$1,075,269	–	93%	Investment holding
EventClicks Limited	Hong Kong	HK\$500,000	–	93%	Provision of corporate management services
EventClicks Singapore Pte Limited	Singapore	S\$2	–	93%	Provision of corporate management services
speedinsure Global Limited	British Virgin Islands	US\$10,000	–	70%	Investment holding
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70%	Provision of sales and fulfillment solution
speedinsure Singapore Pte Ltd	Singapore	S\$2	–	70%	Provision of sales and fulfillment solution
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70%	Insurance brokerage
magictel.com Limited	Hong Kong	HK\$1,000	–	100%	Provision of telecommunication services
NETdefence Company Limited	Hong Kong	HK\$10,000	–	51%	Provision of internet security solution

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
China Portal Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Crystal Kingdom Limited	British Virgin Islands	US\$1	100%	–	Investment holding
e-Kong Services Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Pillars Holdings Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Pillars Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Ventures Limited	British Virgin Islands	US\$1	–	100%	Investment holding

The above summary includes those subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

12. INTANGIBLE ASSETS

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 January		
Opening carrying amount	42,366	781
Additions	4,313	42,748
Amortisation charge	(2,471)	(1,163)
Write-off	(44,208)	–
Closing carrying amount		
At 31 December	–	42,366
At 31 December		
Cost	–	43,529
Accumulated amortisation	–	(1,163)
Closing carrying amount	–	42,366

The write-off of the intangible assets during the year related to business assets and goodwill on business combination in respect of the telecommunication business.

In view of the depressed market for information technology, Internet related businesses and global telecommunication business, the management considered that impairment losses on the intangible assets had occurred and should be recognised during the year.

13. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	(1,911)	(1,257)	–	–
Due from associates	6,749	13,944	6,806	9,215
	4,838	12,687	6,806	9,215

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

13. INTERESTS IN ASSOCIATES (Cont'd)

Details of associates, all of which are unlisted corporate entities, at the balance sheet date are as follow:

Name of associate	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
CIB (Holdings) Limited	British Virgin Islands	US\$1,000	–	28%	Investment holding
Cyber Insurance Brokers (S) Pte Ltd.	Singapore	S\$450,000	–	28%	Insurance brokerage

14. INVESTMENT SECURITIES

	2001 HK\$'000	Group 2000 HK\$'000
At cost less provision:		
Equity securities, unlisted	31,434	133,456
Equity securities, listed outside Hong Kong	–	168,925
	31,434	302,381
Market value of listed securities	–	169,642

15. OTHER INVESTMENTS

	2001 HK\$'000	Group 2000 HK\$'000
At fair value:		
Equity securities at market value, listed outside Hong Kong	16,560	–
Securities portfolio, unlisted	31,177	–
	47,737	–

The securities portfolio is made up of listed securities.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables	37,943	36,368	–	–
Other receivables				
Deposits, prepayments and other debtors	16,287	37,423	843	14,350
	54,230	73,791	843	14,350

The Group's credit terms on credit sales mainly range from 30 days to 90 days. Included in trade and other receivables are trade debtors (net of provision for bad and doubtful debts) with the following ageing analysis.

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	29,048	23,735
1 to 3 months	5,922	10,736
More than 3 months but less than 12 months	2,973	1,897
	37,943	36,368

17. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company had pledged deposits amounting HK\$7,107,000 (2000: HK\$68,680,000) and HK\$3,007,000 (2000: HK\$68,680,000) respectively to banks for guarantee.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank balances and cash	107,349	26,546	90,577	6,677
Time deposits	4,000	317,762	–	312,762
	111,349	344,308	90,577	319,439

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	42,041	17,783	–	–
Other payables				
Accrued charges and other creditors	56,515	78,378	2,816	477
Due to subsidiaries	–	–	4,521	5,092
Due to an associate	–	1,496	–	1,496
	98,556	97,657	7,337	7,065

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	12,617	7,244
1 to 3 months	16,580	8,525
More than 3 months but less than 12 months	12,844	2,014
	42,041	17,783

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

20. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	12,555	617	11,372	582
After 1 year but within 2 years	5,123	–	4,885	–
	17,678	617	16,257	582
Future finance charges	(1,421)	(35)	–	–
Present value of lease obligations	16,257	582	16,257	582

21. ISSUED CAPITAL

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised				
Preference shares of HK\$1 each				
At 1 January and at 31 December	288,929,402	288,929	288,929,402	288,929
Ordinary shares of HK\$0.02 each				
At 1 January	3,000,000,000	60,000	1,500,000,000	30,000
Increase of ordinary shares	3,000,000,000	60,000	1,500,000,000	30,000
At 31 December	6,000,000,000	120,000	3,000,000,000	60,000
Total		408,929		348,929

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

21. ISSUED CAPITAL (Cont'd)

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Issued and fully paid				
Preference shares of HK\$1 each				
At 1 January	9,680,000	9,680	170,970,968	170,971
Converted to ordinary shares	—	—	(161,290,968)	(161,291)
At 31 December	9,680,000	9,680	9,680,000	9,680
Ordinary shares of HK\$0.02 each				
At 1 January	1,559,959,336	31,199	1,159,449,380	23,189
Issue of ordinary shares	3,139,294,672	62,786	230,000,000	4,600
Converted from preference shares	—	—	161,290,968	3,226
Exercise of share options	8,000	—	9,218,988	184
At 31 December	4,699,262,008	93,985	1,559,959,336	31,199
Total		103,665		40,879

- (a) By an ordinary resolution passed at a special general meeting on 23 November 2001, the authorised ordinary share capital of the Company was increased to HK\$120,000,000 by the creation of 3,000,000,000 additional ordinary shares of HK\$0.02 each.
- (b) In April 2001, share options were exercised to subscribe for 8,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$3,920.

In December 2001, 3,139,294,672 new ordinary shares of HK\$0.02 each were issued by way of a rights issue on the basis of two rights shares for every one existing ordinary share, and two rights shares for every one convertible preference share held, at an issue price of HK\$0.0425 per share (the "Rights Issue"). The net proceeds of the Rights Issue are used for providing additional working capital of the Group.

All the new ordinary shares issued during the year rank pari passu in all aspects with the existing ordinary shares of the Company.

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

For the year ended 31 December 2001

21. ISSUED CAPITAL *(Cont'd)*

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

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

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

22. SHARE OPTIONS

- (a) In accordance with the Company's employee share option scheme (the "Scheme") which was adopted in a special general meeting held on 25 October 1999, the directors of the Company may, at their discretion, invite eligible employees, including executive directors of the Company, to take up share options to subscribe for shares in the Company. Any share option granted can be exercised within the period as set out in the terms and conditions for the Scheme. The subscription price for the Company's share under the Scheme is determined by the board of directors and shall not be less than the higher of 80% of the average of the closing market prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

22. SHARE OPTIONS (Cont'd)

(a) (Cont'd)

Details of the share options granted by the Company under the Scheme and the share options outstanding at 31 December 2001 are set out as follows:—

Date of grant	Exercisable period	Adjusted exercise price HK\$	Number of share options				
			At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001
25.10.1999	25.10.2000-24.10.2009	0.14	42,111,235	—	—	—	42,111,235
16.11.1999	16.11.2000-24.10.2009	0.16	6,045,000	—	(8,000)	(1,212,000)	4,825,000
23.12.1999	23.12.2000-24.10.2009	0.20	3,950,000	—	—	—	3,950,000
03.01.2000	03.01.2001-24.10.2009	0.23	3,025,000	—	—	—	3,025,000
24.01.2000	24.01.2000-24.10.2009	0.23	28,700,000	—	—	—	28,700,000
24.01.2000	21.02.2000-24.10.2009	0.23	7,635,000	—	—	(135,000)	7,500,000
25.01.2000	01.03.2000-24.10.2009	0.23	2,500,000	—	—	—	2,500,000
03.03.2000	03.04.2000-24.10.2009	0.76	19,000,000	—	—	—	19,000,000
03.03.2000	03.03.2001-24.10.2009	0.76	3,650,000	—	—	(500,000)	3,150,000
28.04.2000	28.04.2001-24.10.2009	0.33	5,975,000	—	—	(1,060,000)	4,915,000
01.06.2000	01.06.2001-24.10.2009	0.34	250,000	—	—	(250,000)	—
09.08.2000	09.08.2001-24.10.2009	0.23	1,000,000	—	—	(450,000)	550,000
25.10.2000	25.10.2001-24.10.2009	0.12	10,372,274	—	—	(440,000)	9,932,274
16.05.2001	16.05.2001-01.04.2003	0.08	—	200,000	—	—	200,000
TOTAL			134,213,509	200,000	(8,000)	(4,047,000)	130,358,509

The exercise price per share option was adjusted by the multiplier of 0.3320 in January 2002 as a result of completion of the Rights Issue.

- (b) During the year, certain subsidiaries of the Company adopted employee share option schemes ("Subsidiary Schemes"), each in terms and conditions as adopted and approved in a special general meeting of the Company held on 25 April 2001, whereby certain directors and chief executive of the Company, who are also directors of these subsidiaries, are eligible under Subsidiary Schemes to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. No share option has ever been granted in any of the Subsidiary Schemes since adoption.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

23. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Goodwill on conso- lidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1 January 2000	227,407	1,117	6	(1,087)	(62,761)	(253,582)	(88,900)
Share issue	912,221	–	–	–	–	–	912,221
Share issue expenses	(16,894)	–	–	–	–	–	(16,894)
Release on disposal of subsidiaries	–	(1,117)	–	1,087	560	–	530
Exchange difference on translation of foreign subsidiaries	–	(388)	–	–	–	–	(388)
Goodwill on acquisition of subsidiaries	–	–	–	–	(7,134)	–	(7,134)
Net profit attributable to shareholders	–	–	–	–	–	1,302	1,302
At 31 December 2000	1,122,734	(388)	6	–	(69,335)	(252,280)	800,737
Share issue	70,638	–	–	–	–	–	70,638
Share issue expenses	(6,131)	–	–	–	–	–	(6,131)
Exchange difference on translation of foreign subsidiaries	–	381	–	–	–	–	381
Goodwill on consolidation written off	–	–	–	–	69,335	–	69,335
Net loss attributable to shareholders	–	–	–	–	–	(681,315)	(681,315)
At 31 December 2001	1,187,241	(7)	6	–	–	(933,595)	253,645
Company							
At 1 January 2000	227,407	–	6	–	–	(252,495)	(25,082)
Share issue	912,221	–	–	–	–	–	912,221
Share issue expenses	(16,894)	–	–	–	–	–	(16,894)
Net profit attributable to shareholders	–	–	–	–	–	31,713	31,713
At 31 December 2000	1,122,734	–	6	–	–	(220,782)	901,958
Share issue	70,638	–	–	–	–	–	70,638
Share issue expenses	(6,131)	–	–	–	–	–	(6,131)
Net loss attributable to shareholders	–	–	–	–	–	(459,819)	(459,819)
At 31 December 2001	1,187,241	–	6	–	–	(680,601)	506,646

There were no reserves available for distribution as at 31 December 2001 (2000: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

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

	2001 HK\$'000	2000 HK\$'000
(Loss)/Profit before taxation	(682,025)	3,995
Interest income	(4,216)	(28,795)
Income from unlisted investments	–	(66)
Interest on obligations under finance leases	1,216	140
Depreciation	32,134	10,508
Loss on disposal of property, plant and equipment	1,471	152
Intangible assets and goodwill written off	114,795	–
Unrealised holding loss on other investments	240,476	–
Provision for diminution in value of investment securities	72,021	8,904
Share of results of associates	752	1,110
Amortisation of long-term investments	–	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Loss on disposal of other investments	3,807	–
Gain on disposal of subsidiaries	–	(23,521)
Gain on disposal of investment securities	–	(76,051)
Amortisation of intangible assets	2,471	1,163
Changes in working capital:		
Properties held for sale	3,734	(3,734)
Inventories	978	(2,399)
Trade and other receivables	(13,185)	(70,275)
Trade and other payables	491	90,114
Effect of exchange rate changes	381	–
Net cash outflow from operating activities	(191,292)	(86,613)

25. MAJOR NON-CASH TRANSACTION

The Group entered into finance lease arrangements in respect of machinery and equipment with a total capital value at the inception of the arrangements of HK\$24,601,000 (2000: HK\$794,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

26. PURCHASE OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net liabilities acquired:		
Property, plant and equipment	–	303
Trade and other receivables	759	808
Cash and cash equivalents	397	2,219
Trade and other payables	(408)	(5,203)
	748	(1,873)
Goodwill	1,252	7,122
	2,000	5,249
Satisfied by:		
Cash	2,000	5,000
Direct costs incurred	–	249
	2,000	5,249

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	2,000	5,000
Bank balances and cash acquired	(397)	(2,219)
Cash payment for direct costs	–	249
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	1,603	3,030

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

27. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	10,219
Long-term investments	–	5,757
Inventories	–	2,016
Other investments	15,000	–
Trade and other receivables	–	10,733
Cash and cash equivalents	–	5,068
Trade and other payables	–	(12,952)
Taxation	–	(616)
Minority interests	–	(14,276)
Exchange reserve	–	(1,117)
Other capital reserve	–	1,087
Reserve on consolidation	–	560
	15,000	6,479
Gain on disposal of subsidiaries	–	23,521
	15,000	30,000

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	15,000	–
Cash and bank balances disposed	–	(5,068)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	15,000	(5,068)

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued capital and share premium <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2000	250,596	–	12,441
Cash inflow/(outflow) from financing	742,046	(212)	–
Inception of finance leases contracts	–	794	–
Share of profit for the year	–	–	1,954
Disposal of subsidiaries	–	–	(14,276)
Conversion of preference shares	161,291	–	–
At 31 December 2000	1,153,933	582	119
Cash inflow/(outflow) from financing	127,293	(8,926)	591
Inception of finance leases contracts	–	24,601	–
Share of loss for the year	–	–	(710)
At 31 December 2001	1,281,226	16,257	–

29. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, total outstanding commitments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating leases which expire:				
Within one year	10,361	4,515	651	1,284
In the second to fifth years inclusive	4,144	1,784	–	31
	14,505	6,299	651	1,315

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

30. DEFERRED TAXATION

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Excess of tax allowances over depreciation	2,691	2,187
Tax losses carried forward	(88,833)	(28,421)
	(86,142)	(26,234)

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

31. RELATED PARTY TRANSACTION

During the year, the Group paid international telecommunication services fee of HK\$6,563,000 (2000: HK\$4,471,000) to Mandarin Communications Limited, a subsidiary of SUNDAY Communications Limited ("SUNDAY"). Messrs. Richard John Siemens, Kuldeep Saran and William Bruce Hicks are directors of both the Company and SUNDAY.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION

The analysis of the principal business activities and geographical area of operations of the Group during the year are as follows:

(a) By business segments

Year ended 31 December 2001

	Telecom- communication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	224,162	34,912	4,822	263,896
Result				
Loss from operations	(163,391)	(22,612)	(16,107)	(202,110)
Intangible assets and goodwill written off	(105,628)	(2,508)	(6,659)	(114,795)
	(269,019)	(25,120)	(22,766)	(316,905)
Finance costs				(1,216)
Other operating income and expenses				(50,655)
Unrealised holding loss on other investments				(240,476)
Provision for diminution in value of investment securities				(72,021)
Share of results of associates				(752)
Loss from ordinary activities				(682,025)
Minority interests				710
Net loss attributable to shareholders				(681,315)

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2001

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Other information					
Capital expenditure	158,635	3,076	1,234		
Depreciation and amortisation	30,725	1,286	2,076		
Significant non-cash expenses (other than depreciation and amortisation)	7,678	–	271		
Assets					
Segment assets	268,899	8,134	9,715	(382)	286,366
Interests in associates					4,838
Unallocated assets					761,790
Intra-segment elimination					(580,871)
					<u>472,123</u>
Liabilities					
Segment liabilities	618,010	34,629	39,858	(581,253)	111,244
Unallocated liabilities					<u>3,569</u>
					<u>114,813</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2000

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover				
External sales	63,740	1,284	35,101	100,125
Result				
Loss from operations	(76,864)	(9,777)	(2,607)	(89,248)
Finance costs				(140)
Other operating income and expenses				103,397
Provision for diminution in value of investment securities				(8,904)
Share of results of associates				(1,110)
Profit from ordinary activities before taxation				3,995
Taxation				(739)
Profit after ordinary activities after taxation				3,256
Minority interests				(1,954)
Net profit attributable to shareholders				1,302

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2000

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Other information					
Capital expenditure	134,957	3,276	5,779		
Depreciation and amortisation	8,760	345	2,266		
Significant non-cash expenses (other than depreciation and amortisation)	1,142	–	–		
Assets					
Segment assets	198,575	2,260	17,070	(303)	217,602
Interests in associates					12,687
Unallocated assets					993,148
Intra-segment elimination					(283,463)
					<u>939,974</u>
Liabilities					
Segment liabilities	340,701	7,651	31,253	(283,766)	95,839
Unallocated liabilities					<u>2,519</u>
					<u>98,358</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(b) By geographical segments

Year ended 31 December 2001

	Asia Pacific HK\$'000	North America HK\$'000	Consolidated HK\$'000
Turnover			
External sales	150,319	113,577	263,896
Result			
Loss from operations	(105,181)	(96,929)	(202,110)
Intangible assets and goodwill written off	(79,102)	(35,693)	(114,795)
	(184,283)	(132,622)	(316,905)
Finance costs			(1,216)
Other operating income and expenses			(50,655)
Unrealised holding loss on other investments			(240,476)
Provision for diminution in value of investment securities			(72,021)
Share of results of associates			(752)
Loss from ordinary activities before taxation			(682,025)
Minority interests			710
Net loss attributable to shareholders			(681,315)
Other information			
Segment assets	313,551	153,734	467,285
Interests in associates			4,838
			472,123
Capital expenditure	92,311	71,167	

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(b) By geographical segments (Cont'd)

Year ended 31 December 2000

	Asia Pacific HK\$'000	North America HK\$'000	Consolidated HK\$'000
Turnover			
External sales	67,603	32,522	100,125
Result			
Loss from operations	(78,681)	(10,567)	(89,248)
Finance costs			(140)
Other operating income and expenses			103,397
Provision for diminution in value of investment securities			(8,904)
Share of results of associates			(1,110)
Profit from ordinary activities before taxation			3,995
Taxation			(739)
Profit from ordinary activities after taxation			3,256
Minority interests			(1,954)
Net profit attributable to shareholders			1,302
Other information			
Segment assets	786,027	141,260	927,287
Interests in associates			12,687
			939,974
Capital expenditure	47,886	97,253	

33. COMPARATIVE FIGURES

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