

**starEastnet**

**STAREASTnet.com Corporation**

(Incorporated in the Cayman Islands with limited liability)



**ANNUAL REPORT 2001**

[www.stareastnet.com](http://www.stareastnet.com)

## **Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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*This document, for which the directors of STAREASTnet.com Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to STAREASTnet.com Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Tam Wing Lun, Alan (*Chairman*)  
Wong Kun To (*Chief Executive Officer*)  
Chan Pak Cheung, Natalis

#### Non-executive Directors

Peter Anthony Allen  
Chung Cho Yee, Mico  
Chan Kong Sang, Jackie  
Masahide Saito  
Masanori Suzuki

#### Independent Non-executive Directors

Bradford Allen  
Dominic Lai  
Vincent Ting Kau Cheung

### COMPANY SECRETARY

Wong Lai Kin, Elsa, *Solicitor, Hong Kong*

### QUALIFIED ACCOUNTANT

Wong Yiu Hung, *FCCA, AHKSA*

### COMPLIANCE OFFICER

Wong Kun To

### AUTHORISED REPRESENTATIVES

Wong Kun To  
Wong Lai Kin, Elsa

### AUDIT COMMITTEE

Bradford Allen  
Dominic Lai  
Vincent Ting Kau Cheung

### COMPENSATION COMMITTEE

Chung Cho Yee, Mico  
Bradford Allen  
Dominic Lai  
Vincent Ting Kau Cheung

### LEGAL ADVISERS TO THE COMPANY

Clifford Chance  
Iu, Lai & Li  
Maples and Calder Asia (*as to Cayman Islands law*)

### AUDITORS

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of China  
The Kwangtung Provincial Bank

### SHARE REGISTRARS AND TRANSFER OFFICES

#### Principal Registrars

Bank of Butterfield International (Cayman) Limited  
P.O. Box 705  
Butterfield House, Fort Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

#### Hong Kong Branch Registrars

Central Registration Hong Kong Limited  
Rooms 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong



## Corporate Information

### REGISTERED OFFICE

Ugland House  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### WEBSITE

[www.stareastnet.com](http://www.stareastnet.com)

### HEAD OFFICE

#### AND PRINCIPAL PLACE OF BUSINESS

Units 2509-11  
Paul Y. Centre  
51 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

### STOCK CODE

8010



## HIGHLIGHTS

- Successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 1st June, 2000
- Turnover for the year was approximately HK\$48,383,000
- Loss for the year was approximately HK\$174,263,000
- Launching four superstar mega-sites, namely, *leonstareastnet.com* in April 2000, *jackiechan.stareastnet.com* in October 2000, *teresa.stareastnet.com* in November 2000 and *kellychen.stareastnet.com* in December 2000
- Launching a mainland PRC-focused website, *cn.stareastnet.com* in October 2000



*STAREASTnet was listed on GEM on 1st June, 2000*

# CHAIRMAN'S STATEMENT





## CHAIRMAN'S STATEMENT

We are pleased to present the annual results of STAREASTnet.com Corporation ("STAREASTnet" or the "Company") and its subsidiaries (the "Group") for the financial year ended 31st March, 2001.

STAREASTnet was one of the early movers being successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM").

Pursuing its vision to become a leading entertainment and lifestyle information content provider for the global Chinese, the Group has achieved numerous milestones throughout the year and has upheld our consistent objective of enhancing revenue growth. With continuous dedicated efforts throughout the year, STAREASTnet achieved remarkable improvement in revenue growth of 366% and a substantial increase in average daily pageviews and registered members of 100% and 274% respectively, as compared with those of the last financial year-end. It is most encouraging that STAREASTnet received the "Hong Kong eAward Design and Innovation Award" presented by Hong Kong Productivity Council in April 2000. In January 2001, *leonstareastnet.com*'s interactive game "Leon-Clean Neighborhood Internet Game", which was developed in collaboration with The Hong Kong Housing Authority, received the international recognised Mercury 2000 Bronze Winner presented by MerComm, Inc. in USA.



*STAREASTnet was listed on GEM on 1st June, 2000*



*Hong Kong eAward Design and Innovation Award*





## Chairman's Statement



*STAREASTnet family of celebrities and management*

With the tremendous support of an unprecedented group of over 200 Asian celebrities, the Group produced the best selections of exclusive broadband-enabled multimedia Chinese entertainment content. Building on our continuous effort in enhancing content, products and services, STAREASTnet has grown significantly with the launch of four superstar mega-sites and a mainland PRC-focused website during the year. Moving towards its regional ambitions, the Group is now a regional operation with offices established in Taiwan, Singapore, North America, China and Hong Kong.

Amidst the industry turbulence, the Group has demonstrated its ability to emerge as one of the leading entertainment internet content providers in the region. STAREASTnet's compelling and unique artiste-based entertainment content has provided the Group with revenue growth opportunities through licensing of content and provision of one-stop cross-media entertainment marketing services which embrace both online and offline marketing as well as e-commerce. Leveraging the contracted artistes to act as sponsors or promoters of advertised products or brands, and matching this with our creative deployment of cost-effective cross-media marketing services, has been a unique and successful business model of STAREASTnet. To stay ahead of competition, STAREASTnet has been rationalizing production resources and refining operations, which enabled the Group to sustain competitive operating costs and consolidate its foundation for future growth opportunities.



*STAREASTnet joined forces with Softchina to introduce a new generation of cyber games*



## Chairman's Statement



*Value-added cross-media entertainment marketing services*



## FINANCIAL REVIEW

During the year ended 31st March, 2001, the Group achieved a turnover of approximately HK\$48,383,000, an increase of 3.66 times over the last year ended 31st March, 2000. This was mainly attributable to the substantial increase of on-line and off-line advertising and sponsorship revenues and new revenue sources from content sales and information technology consulting services.

As the Group was under a stage of investment and development in the year ended 31st March, 2001, a net loss of approximately HK\$174,263,000 was recorded. The average monthly operating costs was decreasing throughout the year as a result of continuous operation reviews and the implementation of effective cost controls.

As a result of the listing of the Company's shares on GEM and the share placement (including the over-allotment option which was fully exercised) and initial public offering, the Group obtained net proceeds of approximately HK\$198 million. As at 31st March, 2001, the cash and bank balance of the Group amounted to approximately HK\$57,476,000.



## Chairman's Statement

During the period from 1st June, 2000 (date of listing) to 31st March, 2001, the Group has incurred the following amounts to achieve its business objectives as set out in the prospectus dated 23rd May, 2000:

- approximately HK\$71,497,000 for entertainment-related content development;
- approximately HK\$32,375,000 for capital expenditure for technology;
- approximately HK\$25,551,000 for promotion and online and offline marketing;
- approximately HK\$2,600,000 for strategic investment;
- approximately HK\$3,465,000 for e-commerce business; and
- approximately HK\$4,638,000 for general working capital.

## OPERATIONS REVIEW

Despite global downtrend in the internet sector and portal business, the Group has still maintained its position as the leading entertainment portal in Hong Kong. The Group managed to sustain steady growth in both average pageviews and registered users for the first year after being successfully listed on GEM. As of March 2001, average daily page views of the Company's websites has maintained at approximately 1.6 million and the Group has successfully recruited over 445,000 registered members.

The Group has adopted effective cost controls to streamline the operation to achieve the utmost level of operational cost-effectiveness. Operating expenses substantially decreased since January 2001 and continued to decrease towards the ultimate target. The Group is confident that the new cost structure can enable itself to remain competitive and to face the turbulence of the internet industry development and seasonal fluctuations of the advertising market.

The Company is positioned to become a leader in providing multimedia entertainment and life-style information to the Chinese community worldwide. The overall business objective of the Group is to provide innovative, trend-setting, attractive and exclusive content, products and services to redefine leisure activities and personal enjoyment on a global scale by harnessing the unique international power, prestige and creativity of Asia's entertainment elite.

## Content Development

The Group has devoted its efforts to offering a variety of entertainment and lifestyle information to viewers. Multimedia features such as streaming video and audio, VOD live webcast, 3-D chatroom, games and interactive comics were introduced. In addition, exclusive programmes related to health & fitness and gourmet & cuisine hosted by celebrities were developed. Other community features including online photo album, e-mail, web-calendar, chatroom, bulletin board and e-card were introduced to provide value-added services to the users. Other highlights include the online interactive stock market simulation game through which participants can purchase and sell virtual stocks represented by popular artistes and top winners will be awarded with prizes.



Interactive stock market simulation game – [stock.stareastnet.com](http://stock.stareastnet.com)





## Chairman's Statement

Furthermore, the Group implemented a loyalty program, Star Cash, which rewarded users for interacting via the Group's websites and contributed to the growth and retention of the membership base. Other features include polling on songs, TV shows and movie stars, which enabled users to support and rate the artistes and their products on a continual basis through voting.

The celebrity element is what makes the Group unique and as of March, 2001, the Group has contracted with over 200 artistes, including over 100 artistes in Hong Kong, over 40 artistes in Taiwan, over 10 artistes in Singapore and over 50 artistes in mainland China. Four superstar mega-sites, with each solely dedicated to one renowned artiste, were launched during the year. *leonstareastnet.com* was launched during the first half of the year and followed by *jackiechan.stareastnet.com*, *teresa.stareastnet.com* and *kellychen.stareastnet.com* during the second half of the year.

Apart from mega-site development, an exclusive programme hosted by Mr. Tinming Yang, a well-known Fung Shui expert and fortune teller, featuring Fung Shui oriented tutorials, question and answer, and face and hand analysis for celebrities was successfully launched in December 2000.

Revamp of the Group's website was initiated in early 2001 with a view to providing a more pleasant outlay, better navigational environment and, most importantly, a fresh and more fashionable outlook for regular users.



Launch of Jackie Chan's official website – [jackiechan.stareastnet.com](http://jackiechan.stareastnet.com)



Launch of Teresa Teng's official website – [teresa.stareastnet.com](http://teresa.stareastnet.com)



Launch of Leon Lai's official website – [leonstareastnet.com](http://leonstareastnet.com)



## Chairman's Statement

### Technological and Other Development

The Group has always kept itself abreast of the latest technology. Exclusive programs designated for cellular phone operators such as "Orange" were launched, which enabled WAP users to download audio messages and other information. In order to make the online experience more enjoyable, the Group provided the online e-mail and e-auction platforms, which enabled users to shop and purchase exclusive celebrity endorsed products and event tickets via the Group's platforms.

By leveraging off the accumulated information technology experience and resources, the Group has been able to generate new stream of revenue by offering small and medium enterprises with information technology consulting services including website set up and operating services, e-business solutions, web hosting and maintenance, infrastructure and network design, web page design and so on.

Media used to be an idiosyncratic family of industries (audio-visual, press and telecommunications), each inheriting an impenetrable protocol. The digital revolution has made it possible to harness the entire family within a single environment, so that users in the near future can enjoy the benefits and beauties of different medium in an integrated manner - the multimedia experience. Well-equipped with creative and technology know-how and with a view to empowering its clients to reach their full market potential, STAREASTnet has developed the "Multimedia Lab" which specializes in all kinds of multimedia presentation and application, digital library, content and advertisement management system (CAMS) and digital right management and system integration.



*Multimedia Lab*

### Overseas Expansion

With a view to reaching different Chinese communities around the world, the Group had extended its operation and established regional websites with localized content in Taiwan, Singapore, North America and a mainland PRC-focused website targeting viewers from Greater China.



*Launch of a mainland PRC-focused website - cn.stareastnet.com*



## Chairman's Statement



Regional website with localized content in Taiwan – [tw.stareastnet.com](http://tw.stareastnet.com)



Regional website with localized content in Singapore – [sg.stareastnet.com](http://sg.stareastnet.com)



Mirror site in North America – [na.stareastnet.com](http://na.stareastnet.com)



## Chairman's Statement

### FUTURE PLANS AND DEVELOPMENTS

Despite ongoing industry consolidation, STAREASTnet is well poised to capture potential growth opportunities to further strengthen its leading position as the preferred provider of internet entertainment content and cross-media entertainment marketing services in the region.

STAREASTnet believes that conventional marketing services can complement new media and will add effectiveness and flexibility to the business model of the Group in the context of the continuing difficult market conditions. By integrating creativity, conventional marketing services and new media expertise of the Group, we are committed to providing value-added cross-media entertainment marketing services to advertisers. Moving towards new media prosperity in Asia, the Group will continue its campaign to produce the finest entertainment content with the objective of maximizing revenue growth. Tapping into the existing resources and expertise of the group's production taskforce, we also plan to offer an array of tailor-made multimedia content and services to fulfil the diverse needs of clients, which are expected to provide a new revenue stream for the Group.



*kellychen.stareastnet.com, the official website of Kelly Chen*



*An exclusive programme hosted by well-known Fung Shui expert and fortune teller, Mr. Tinming Yang*



**stareastnet**

台灣 星加坡 北美 北京

2001年5月21日(一) 午收市報:13,721↑262——預測明日密雷,間中有大雨及狂風雷暴。氣溫介乎25至28度,濕度:

登入名稱:

密碼:

遞交

會員登入

新會員登記



## Stareastnet精選

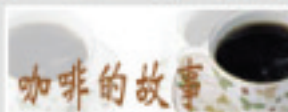
- 陳慧琳與竹野內豐拍接吻戲綵排十一次
- Nokia 8850金裝版登陸香港
- 《天命玄學》人氣急升 -- 陳小春
- 送《追訪有情人》電影Postcard
- 新相入侵照相館

### 娛樂追蹤



- 憶述步出伊健家情景 梁詠琪:驚到腳震
- 何韻詩要將桃花運轉贈阿梅

### 生活閒情



- Nokia 8850金裝版登陸香港
- 《天命玄學》人氣急升 -- 陳小春

### 會員專區



- 北野武新作《大佬》預告片
- 母親節公佈得獎名單

### 明星官方網頁

- ▶ 成龍 Jackie Chan
- ▶ 黎明 Leon Lai
- ▶ 陳慧琳 Kelly Chen
- ▶ 鄧麗君 Teresa Teng



### 十二星座運程

search 請選擇

### 流行榜

最強歌手排行榜

1. 任賢齊 2. 黎明 3. 譚詠麟

### 明星網頁



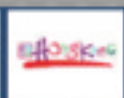
成龍生日哈設計比賽得獎名單



獅身人面像下的馮德倫



新女性魅力惠婉婉



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Revamped homepage of www.stareastnet.com





## Chairman's Statement

Facing both the volatile internet market and competitive advertising market ahead, the Group will continue to contain operating costs and optimize use of assets so as to sustain competitiveness. It is the Group's strategy to continue recruiting more popular artistes in Asia with a view to further strengthening our market position. With the imminent convergence and proliferation of wireless technology and the move to broadband, we are confident that STAREASTnet will command a competitive edge and ride on the new tide. Building on a solid foundation with strong brand recognition, capitalizing on its readily wireless and broadband accessible content and matching the excellence of its multimedia production and technical taskforce, STAREASTnet is well-positioned to capture the immense opportunities emerging in the broadband and wireless arena.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to the shareholders and business partners for their support, to the management, contracted celebrities and staff for their continuous and dedicated efforts throughout this past year.

#### **TAM WING LUN, ALAN**

*Chairman*

Hong Kong, 13th June, 2001



*STAREASTnet supports the "Dress Sporty Day" organised by Hong Kong Sports Development Board*



## DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Tam Wing Lun, Alan**, aged 50, is the Chairman of the Company. He is also the Chairman of Star East Holdings Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Tam is one of Hong Kong's leading recording artistes in Asia and has recorded more than 60 albums, including the award-winning "The Late Coming Spring", "Misty Love", and the "Root of Love". For the four consecutive years from 1985 to 1988, he won the "Most Popular Male Singer" award at the TVB Solid Gold Best Ten Awards ceremony in Hong Kong. Mr. Tam performed in more than 150 solo concerts throughout Asia, Europe, and North America and appeared in more than 25 movies in Hong Kong. He joined the Group in March 1999 and was appointed to the Board in February 2000.

**Mr. Wong Kun To**, aged 45, is the Chief Executive Officer and Compliance Officer of the Company. With extensive experience in business investment, Mr. Wong is responsible for overall investment strategy, corporate development and operations of the Group. Since joining the Group in January 1999, he has successfully developed the Group's various entertainment businesses and the management team was strengthened in the areas of finance, corporate development and operation. Under his management, the Group has expanded progressively into the information technology business. Trained as a qualified engineer, Mr. Wong is a member of the Institute of Engineers (U.K.) and the Hong Kong Institute of Engineers. He is an executive director of Star East Holdings Limited and ITC Corporation Limited (a company whose shares are listed on The Stock Exchange of Hong Kong Limited). Mr. Wong was appointed to the Board in February 2000.

**Mr. Chan Pak Cheung, Natalis**, aged 50, is a well-known actor, master of ceremonies and horseracing and soccer commentator. Mr. Chan has over 20 years of experience in the entertainment and film industry in Hong Kong. Mr. Chan joined the Group in March 1999 and was appointed to the Board in February 2000. He is the Vice Chairman of Star East Holdings Limited.

### NON-EXECUTIVE DIRECTORS

**Mr. Peter Anthony Allen**, aged 46, is an executive director and Chief Financial Officer of Pacific Century CyberWorks Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited. He is also the Chief Financial Officer of Pacific Century Regional Developments Limited. Mr. Allen was educated in England and holds a bachelor of arts degree in economics from Sussex University, England. He is a Fellow of the Institute of Chartered Accountants at Singapore. Mr. Allen joined KPMG Peat Marwick in London in 1976 and in 1980 joined Occidental Petroleum Corporation. In 1983, Mr. Allen joined Schlumberger Limited and worked in various countries holding key finance positions. In 1989, Mr. Allen moved to Singapore as Regional Financial Director of the Vestey Group. He later joined Bousteadco Singapore Limited as Group Operations Controller in 1992 and Morgan Grenfell Investment Management (Asia) Limited as a director and the Chief Operating Officer in 1995. He joined the Pacific Century Group and moved to Hong Kong in 1997. He was appointed to the Board in February 2000.

**Mr. Chung Cho Yee, Mico**, aged 40, is the Chairman of iLink Holdings Limited, a company whose shares are listed on GEM of The Stock Exchange of Hong Kong Limited, and an executive director of Pacific Century CyberWorks Limited responsible for CyberWorks Ventures. He is a qualified solicitor by profession. Mr. Chung graduated from the University College, University of London, England with a law degree in 1983. He was qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988. He became a director and the general manager of Bond Corporation International Ltd. in 1990 and left to join China Strategic Holdings Limited as a director in January 1992. Mr. Chung joined the Pacific Century Group in March 1999 and was appointed to the Board in February 2000.



## Directors and Senior Management

### NON-EXECUTIVE DIRECTORS (continued)

**Dr. Chan Kong Sang, Jackie**, alias **Sing Lung**, MBE, aged 47, has over 20 years' experience in the Hong Kong film industry as a leading film director and actor. He has won a number of film awards both in Hong Kong and abroad and is a popular international movie star. In 1986, Dr. Chan was awarded one of the "Ten Most Outstanding Young Persons" by the Hong Kong Junior Chamber of Commerce for his contribution to society. He was further awarded one of the "Ten Most Outstanding Young Persons of the World" in Sydney in 1988. Dr. Chan is the Chairman of the Global Food Culture Group Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited and a non-executive director of Emperor Entertainment Group Limited, a company whose shares are listed on GEM of The Stock Exchange of Hong Kong Limited. Dr. Chan was appointed to the Board in February 2000. He is also an executive director of Star East Holdings Limited.

**Mr. Masahide Saito**, aged 30, is director, Executive Vice President and Chief Operating Officer of Call to Web, Inc. Mr. Saito has a wide range of experiences from investment management to sales, marketing and administration in the telecommunication and internet industries. He was appointed to the Board in February 2000.

**Mr. Masanori Suzuki**, aged 41, is an executive director of Hikari Tsushin, Inc., a company whose shares are listed on the Tokyo Stock Exchange Division One. Prior to starting his career in Hikari Tsushin, Inc. in 1999, Mr. Suzuki spent 18 years in Japan Associate Finance Co. Ltd., Credit Suisse First Boston Securities Limited, Nomura Securities Co. Ltd. and Marubeni Corporation. Mr. Suzuki was appointed to the Board in February 2000. Mr. Suzuki is also an executive director of Hikari Tsushin International Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Bradford Allen**, aged 44, is the founder and Chief Executive Officer of eFEDERAL.com, a leading business-to-government e-commerce portal. In addition, Mr. Allen is the former founder and Chief Executive Officer of BuyGolf.com Inc., a leading on-line golf retailer which was acquired by Buy.com Inc., one of the largest on-line retailers in the world and listed on NASDAQ in February 2000. In addition to his internet experience, Mr. Allen has over 18 years experience in the private and investment banking business, most recently with Bears, Stearn & Co., Inc. in Hong Kong in 1998 as Managing Director. Mr. Allen graduated with a business degree from Villanova University in 1978. He was appointed to the Board in February 2000.

**Mr. Dominic Lai**, aged 54, was appointed to the Board in May 2000. Mr. Lai is a practising solicitor in Hong Kong and senior partner of the Hong Kong law firm, Iu, Lai & Li. He is also director of a number of publicly listed companies in Hong Kong, including ITC Corporation Limited (as an independent non-executive director).

**Mr. Vincent Ting Kau Cheung**, aged 59, was appointed to the Board in May 2000. Mr. Cheung is a practising solicitor and the senior partner of the firm of solicitors, Vincent T.K. Cheung, Yap & Co. He obtained a bachelor of laws degree from University College, London and was admitted as a solicitor in the United Kingdom in 1970 and in Hong Kong in 1972. Mr. Cheung is an executive director of Global Food Culture Group Limited, a non-executive director of Gold Peak Industries (Holdings) Limited and Techtronic Industries Company Limited and an independent non-executive director of Paul Y. - ITC Construction Holdings Limited, companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

### SENIOR MANAGEMENT

**Mr. Chan Yan Kin, Philip**, aged 56, Chief Operating Officer, joined the Group in February 2000. Mr. Chan is a well known actor, master of ceremonies and screenplay writer. He worked in the Hong Kong Police Force as a superintendent in the 1970s. Mr. Chan has over 30 years' experience in the entertainment and media business in Hong Kong. He was the Chief Executive Officer of Metro Broadcast Limited, a radio broadcasting company in Hong Kong and the General Manager of Capital Artist Limited, a record and entertainment company in Hong Kong. He is also an executive director of Star East Holdings Limited.



## Directors and Senior Management

### SENIOR MANAGEMENT (continued)

**Mr. Wong Yiu Hung**, aged 36, Chief Financial Officer, joined the Group in March 1999. He is a qualified accountant and a fellow of the Association of Chartered Certified Accountants and an associate of The Hong Kong Society of Accountants. He holds a bachelor of laws degree from the Beijing University. He has over 13 years' experience in finance, accounting, administration and corporate development in listed companies and international accounting firms. Prior to his joining the Group, Mr. Wong was the Chief Financial Officer of Star East Holdings Limited.

**Mr. Andrew Pang**, aged 37, Senior Vice President of Technical and Content Department, joined the Group in December 1999. He holds a bachelor of technology degree from Ryerson Polytechnic University in Toronto, Canada. He has over 12 years' experience in technology management, system integration and project management. Before joining the Group, Mr. Pang held management position at Nike - Asia Pacific Headquarter responsible for intranet and internet development in Asia Pacific region, and technical operation at Pacific Capital Limited.

**Mr. Tai Chi Pin, Franky**, aged 48, is the Managing Director of the Group's operations in North America. Mr. Tai graduated from The Hong Kong Polytechnic University in business studies. Before immigrating to Canada, he accumulated over 20 years' management experience in marketing of building and engineering products in Hong Kong and the PRC, and was the Deputy Managing Director of Arnhold Holding Limited (recently renamed i-ONXY Limited), a company whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Tai joined the Group in January 2000.

**Mr. Kam Chi Fai, Philip**, aged 47, Senior Vice President of the Group's operations in Taiwan, joined the Group in December 1999. Mr. Kam was the Director Executive, Producer and Production Executive of Television Broadcasts Limited from 1975 to 1991. He has produced a lot of large live show projects for activities of gold disc award presentation and charity fund raising. From 1985 to 1995, he worked for Brain New Advertising & Production Agency as Managing Director and Production Controller. He was the founder of Super TV (Taiwan) and worked as the Production Controller between 1995 and 1998.

**Ms. Lim Lai Hwa**, aged 42, General Manager of the Group's operations in Singapore, is responsible for overseeing the contents of *sg.stareastnet.com*, strategic planning and the day-to-day operations. Ms. Lim started off as a journalist in Shin Min Daily News and went on to become the public relations manager of a major recording company in Singapore. She then started her own advertising and entertainment company, Full House Communications Private Limited. With her hard work and dedication, she successfully transformed this company from an unknown firm into an enterprise enjoying an annual turnover of more than SGD5 million.

**Mr. Zhang Zhen Li**, aged 45, Managing Director of the Group's operations in Beijing, PRC, joined the Group in February 2000. He holds a bachelor of arts degree in business and administration management. Mr. Zhang has over 28 years' experience in management in mainland China including taking leadership of Low-pressure Electrical Machine Manufacturing of Beijing and serving as the section-chief of organization department of Beijing government, the section-chief of foreign trade department of Beijing government, the chief of the delegate of Computer Product Co., of United States of America (Beijing) and the director of Beijing Pacific Mansion of Pacific Capital Service Group (China).

**Ms. Yu Wing Shan, Sandy**, aged 42, is Content Consultant to the Group. She has over 16 years' programming experience gained from senior positions at Television Broadcasts Limited and Asia Television Limited. Ms. Yu's production at Asia Television Limited included the creation of "Hong Kong Today", a daily programme discussing social issues with an average ratings share of over 30%, and "Stories from Afar", a documentary on Chinese migrants abroad which recorded an average ratings share of 28% and was elected by audiences as one of the top ten programmes in the Next TV Awards in 1998.

**Ms. Wong Lai Kin, Elsa**, aged 35, Company Secretary and Legal Counsel, joined the Group in November 1999. She holds a bachelor's and master's degree in law and was qualified as a solicitor of the Supreme Court of Hong Kong in 1991. Before joining the Group, Ms. Wong was the corporate counsel and company secretary of ITC Corporation Limited and Paul Y. - ITC Construction Holdings Limited.





## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 23rd May, 2000. Almost all objectives have been achieved whilst a few were adapted in the light of the change of market conditions. The Group will continuously review its business objectives and strategies and make alignment accordingly to respond to the actual market conditions.

### **Business objectives up to the second half of the year ended 31st March, 2001 as disclosed in Prospectus**

#### **Content development**

1. Launch and develop exclusive interactive multi-media broadband content focusing on entertainment, such as game shows, TV drama/series, exclusive interviews and biographies
2. Develop new WAP phones and personal digital assistant (PDA) features for e-commerce, including event ticketing
3. Launch at least one new mega-site featuring one of the Group's contracted celebrities

### **Actual business pursuit up to the second half of the year ended 31st March, 2001**

- The Group continued to devote its effort to content enrichment, making content more interactive through the extensive usage of both audio and video-on-demand technology to complement traditional static content. Through the Group's video channel, viewers can enjoy interactive content such as online movies, news, live chats and interviews with artistes.
- Cooperation between *tw.stareastnet.com* and mobile phone operators such as "Yes Mobile" allowed mobile phone users to access audio greetings and messages from artistes and STAREASTnet theme songs.
- The official Jackie Chan website, *jackiechan.stareastnet.com* was launched in October 2000. The website features exclusive articles, photos, streaming videos and diary of Jackie Chan.
- The mega-site solely dedicated to Teresa Teng was launched in November 2000. The website features exclusive events such as a celebrity profile, a fan club, videos featuring Teresa Teng and Teresa Teng's live concerts, etc.
- The Kelly Chen mega-site was soft-launched in December 2000, which provides a virtual place for viewers to share feelings and obtain the latest information regarding to Kelly Chen.



## Comparison of Business Objectives with Actual Business Progress

### Business objectives up to the second half of the year ended 31st March, 2001 as disclosed in Prospectus

#### Content development (continued)

4. Enhance WAP applications such as electronic games, polling, internet shopping and Superstars' secretary services and mobile ICQ by offering more proprietary content of such services featuring the Group's celebrities
5. Offer pervasive computing content not relating to entertainment and lifestyles, such as financial information
6. Produce and/or source exclusive localized content and services in Japan and Korea and translating content into Japanese and Korea

#### E-commerce development

1. Further develop e-commerce opportunities, such as celebrity memorabilia auctions and sales of celebrity merchandise

### Actual business pursuit up to the second half of the year ended 31st March, 2001

- Due to the below industry-expected popularity of WAP, the Group has explored other advance technologies. The Group has partnered with Intelligent Communications Pte Ltd to implement the Unified Messaging System (UMS) for the Singapore members. This feature enables members to retrieve voice mails, e-mails and facsimile transmission from a cellular telephone, fixed line telephone and the web.
- An education program involving artistes teaching various languages was introduced. The Group has also developed features to provide financial information such as the Hang Seng Indices for launch in the next quarter.
- In preparation of the Korea-focused website, content translation and localization to specifically tailor for the local community is in progress.
- The Group continued to extend the variety of goods being sold on the e-commerce platform. In addition to VCDs, CDs and DVDs, other specially designed merchandise ranging from accessories to casual apparel were offered.
- Exclusive celebrity endorsed products such as those under the Leon Lai/LL Collection were sold online through the Group's e-commerce platform.
- An alliance with "Urphoto" was formed to provide online photo finishing and souvenir services. Via the online platform, users can process digital photos into physical prints and purchase souvenirs such as mouse pads and mugs with photos on the them.



## Comparison of Business Objectives with Actual Business Progress

### Business objectives up to the second half of the year ended 31st March, 2001 as disclosed in Prospectus

#### E-commerce development (continued)

2. Attract additional vendors to place products on the online shopping mall that are not related to the entertainment industry, for example, clothing, cosmetic, accessories and electronic vendors
3. Launch pay-per-view video and video on demand services in Hong Kong, Singapore and Taiwan

#### Technological development

1. Acquire software and hardware technology relating to the 3rd generation mobile phone for enhancing pervasive computing features that include higher quality images and faster access to requested content
2. Enhance the e-commerce platform and other technology platforms for content, applications and database management in the broadband environment

### Actual business pursuit up to the second half of the year ended 31st March, 2001

- Other non-entertainment related products such as computer software ("Microsoft"), suitcase ("Snoopy"), sneakers ("Fila") and flowers ("Rococo")...etc were available on the online shopping mall provided by vendors outside the entertainment industry.
- The Group is currently offering free video-on-demand clips and movies for viewers and is ready to provide pay-per-view services once the market condition becomes mature.
- As most of the mobile phone network providers have announced to postpone the launch of the 3rd generation wireless services, the Group will stay on top and observe the industry development and respond accordingly.
- Nonetheless, the Group has begun the development and use of multimedia technology to enrich its websites. The Group currently focuses on building up expertise in the areas of 3D modeling and animations, VOD (video on demand), DRM (digital right management) and multimedia database management system.
- In line with STAREASTnet.com's multimedia and e-commerce strategy, the Group has continued to enhance its platform by deploying the "Java" and "XML-based" content management solution. Through the use of up-to-date technology such as "Java" and "XML", it is expected that the Group's operation to manage all media types and website components to maximize content re-use and re-purposing will be enhanced, and operational efficiency will be increased.
- The Group has also developed the "pay-per-view" and payment gateway technology which is ready for launch as and when the Group considers appropriate having regard to the market conditions.



## Comparison of Business Objectives with Actual Business Progress

**Business objectives up to the second half of the year ended 31st March, 2001 as disclosed in Prospectus**

### **Technological development** (continued)

3. Offer consulting services to companies in Asia seeking to set up and operate entertainment and life-style websites

**Actual business pursuit up to the second half of the year ended 31st March, 2001**

- By leveraging off the accumulated information technology experience and resources, the Group has been able to generate new stream of revenue by offering small and medium enterprises with information technology consulting services. The Group will continue to offer information technology consulting services including website set up and operating services, e-business solutions, web hosting and maintenance, infrastructure and network design, web page design and so on.

### **Overseas expansion**

1. Explore the setting up of regional websites in Japan and Korea and, if considered appropriate, launch such websites

- The Group has successfully launched a mainland PRC-focused website in October 2000, targeting viewers in the triangle area of Beijing, Shanghai and Guangzhou.
- In addition, the Group is in the process of further expanding its regional network by developing a Korean-focused website targeting the Korean community. Content translation and localization to specifically tailor for the local community is in progress.

The background is a solid blue color with various semi-transparent geometric shapes (squares and rectangles) and circular lens flare effects scattered across it. The text is centered in the upper half of the image.

# **DIRECTORS' REPORT**



## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Group and the Company for the year ended 31st March, 2001.

### REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

Pursuant to a group reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group formed after the completion of the group reorganisation on 18th May, 2000 and the shares of the Company have been listed on the Stock Exchange since 1st June, 2000.

Details of the group reorganisation are set out in the prospectus issued by the Company dated 23rd May, 2000.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 33 and 15, respectively, to the financial statements.

### RESULTS

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 38.

### RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 22 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results of the Group for the period from 18th February, 1999 to 31st March, 1999 and for the two years ended 31st March, 2000 and 2001 is set out on pages 77 and 78.

### PROPERTY AND EQUIPMENT

During the year, the Group spent approximately HK\$34,909,000 on network and computer equipment to expand and upgrade its operating capacity.

Details of this and other movements during the year in the Group's property and equipment are set out in note 12 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 12% and approximately 32% of the Group's turnover, respectively, and the largest and the five largest suppliers account for 15% and 40% of the Group's costs of sales for the year ended 31st March, 2001, respectively. Star East Holdings Limited ("SEH"), a substantial shareholder of the Company, is interested in the above transactions to the extent that it is the holding company of one of the five largest customers of the Group. Save as aforesaid, none of the directors, their associates (within the meaning of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) have any interest in the customers or suppliers disclosed above.





## Directors' Report

### SHARE CAPITAL

Details of movements in the authorised and issued share capital of the Company during the year are set out in note 20 to the financial statements.

Details of the share option schemes and movements during the year are set out in note 21 to the financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

#### Executive directors

Tam Wing Lun, Alan (*Chairman*)

Wong Kun To (*Chief Executive Officer*)

Chan Pak Cheung, Natalis

#### Non-executive directors

Peter Anthony Allen

Chung Cho Yee, Mico

Chan Kong Sang, Jackie

Masahide Saito

Masanori Suzuki

#### Independent non-executive directors

Bradford Allen

Dominic Lai (appointed on 2nd May, 2000)

Vincent Ting Kau Cheung (appointed on 8th May, 2000)

In accordance with Article 115 of the Company's Articles of Association, Peter Anthony Allen, Chung Cho Yee, Mico and Chan Kong Sang, Jackie will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each of the independent non-executive directors is the period up to his retirement by rotation as required by the Company's Articles of Association.

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing on 1st June, 2000 and continuing thereafter unless and until terminated by either party by giving to the other party not less than six months' prior written notice.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



## Directors' Report

### DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2001, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interests in shares of the Company

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Tam Wing Lun, Alan	–	–	87,150,000 <i>(Note)</i>	–
Chan Pak Cheung, Natalis	–	–	87,150,000 <i>(Note)</i>	–

*Note:* These shares were beneficially owned by Gold Miracles Limited, a company in which the relevant director holds one third of its issued share capital. The relevant director is therefore deemed to be interested in 87,150,000 shares in the Company.

Save as disclosed above, as at 31st March, 2001 none of the directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

### OUTSTANDING SHARE OPTIONS

As at 31st March, 2001, options comprising an aggregate of 127,315,000 underlying shares granted pursuant to the Pre-IPO Share Option Scheme and the Employee Share Option Scheme were outstanding. All of these options are subject to limitations on the timing of exercise as detailed in the section headed "Directors' Rights to Acquire Shares".



## Directors' Report

### OUTSTANDING SHARE OPTIONS (continued)

#### Pre-IPO Share Option Scheme

As at 31st March, 2001, options granted on 26th May, 2000 comprising an aggregate of 93,340,000 underlying shares at an exercise price of HK\$1.18 per share were outstanding. These options were granted to the following categories of grantees:

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options
Directors of the Company and its subsidiaries	17	67,300,000
Contracted celebrities	2	10,910,000
Employees	71	15,130,000
		<hr/>
		93,340,000
		<hr/>

Details of the grant to the directors of the Company are set out in the section headed "Directors' Rights to Acquire Shares". Details of the options granted to directors (including alternate directors) of the subsidiaries of the Company are as follows:

Name of director of subsidiaries	No. of underlying shares comprised in the options
Tsang Chi Wai, Eric	10,000,000
Chau Mei Wah, Rosanna	2,000,000
Wong Yiu Hung	2,000,000
Chan Yan Kin, Philip	1,100,000
Wong Lai Kin, Elsa	1,000,000
Tai Chi Pin, Franky	700,000
	<hr/>
	16,800,000
	<hr/>

During the period from 26th May, 2000 to 31st March, 2001, options comprising a total of 5,700,000 underlying shares granted to 34 employees lapsed when these employees ceased to be employed by the Group.



## Directors' Report

### OUTSTANDING SHARE OPTIONS (continued)

#### Employee Share Option Scheme

As at 31st March, 2001, options granted to full-time employees of the Group on 5th September, 2000 and 10th January, 2001 comprising an aggregate of 33,975,000 underlying shares were outstanding. The scheme has a duration of 10 years from 15th May, 2000. Any option granted will lapse when the relevant grantee ceases to be employed by the Group. Details of the outstanding options as at 31st March, 2001 are as follows:

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options	Exercise price per share HK\$	Option period
Employees	12	5,200,000	1.75	5th September, 2000 to 4th September, 2005
Directors of the Company and its subsidiaries	5	12,000,000	1.10	10th January, 2001 to 9th January, 2006
Employees	98	16,775,000	1.10	10th January, 2001 to 9th January, 2006
		<u>33,975,000</u>		

Details of the grant to the directors of the Company are set out in the section headed "Directors' Rights to Acquire Shares". Details of the options granted to directors (including alternate directors) of the subsidiaries of the Company are as follows:

Name of director of subsidiaries	No. of underlying shares comprised in the options
Chan Yan Kin, Philip	2,000,000
Wong Yiu Hung	2,000,000
Wong Lai Kin, Elsa	1,000,000
Tai Chi Pin, Franky	1,000,000
	<u>6,000,000</u>

During the period from 5th September, 2000 to 31 March, 2001, options comprising a total of 1,490,000 underlying shares granted to 19 employees lapsed when these employees ceased to be employed by the Group.

Saved as disclosed above, no option pursuant to the Pre-IPO Share Option Scheme and the Employee Share Option Scheme was granted, exercised, cancelled or lapsed during the year ended 31st March, 2001.



## Directors' Report

### OUTSTANDING SHARE OPTIONS (continued)

A summary of the major terms of each share scheme is set out on pages 239 to 245 of the Company's prospectus dated 23rd May, 2000.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme as described in the section headed "Outstanding Share Options" above, each director of the Company was granted options to subscribe for the following number of shares in the Company at an exercise price of HK\$1.18 per share:

<b>Name of director</b>	<b>No. of underlying shares comprised in the options</b>
Tam Wing Lun, Alan	12,500,000
Wong Kun To	12,500,000
Chan Pak Cheung, Natalis	12,500,000
Chan Kong Sang, Jackie	6,000,000
Peter Anthony Allen	1,000,000
Chung Cho Yee, Mico	1,000,000
Masahide Saito	1,000,000
Masanori Suzuki	1,000,000
Bradford Allen	1,000,000
Dominic Lai	1,000,000
Vincent Ting Kau Cheung	1,000,000
	<hr/>
	50,500,000

Pursuant to the Employee Share Option Scheme as described in the section headed "Outstanding Share Options" above, Mr. Wong Kun To was granted options to subscribe for 6,000,000 shares in the Company at an exercise price of HK\$1.10 per share on 10th January, 2001.

The options are exercisable in accordance with the terms of the Pre-IPO Share Option Scheme and the Employee Share Option Scheme at any time during a period commencing 1 year after the date of grant and ending 5 years after the date of grant in accordance with the following schedule:

<b>Period since date of grant</b>	<b>Percentage of shares comprised in options which become exercisable</b>
Year 1	zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the option has not been previously exercised



## Directors' Report

### DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

None of the above options was exercisable during the year ended 31st March, 2001.

Save as disclosed above, at no time during the year ended 31st March, 2001 was the Company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

Details of transactions during the year between the Company's subsidiaries and connected parties are as follows:

a. Trademarks

The Group entered into an agreement with a wholly-owned subsidiary of SEH on 17th May, 2000 pursuant to which the Group was granted rights to use certain trademarks with effect from 1st April, 2000. The annual trademark license fee is HK\$800,000. In addition, the Group will only bear half of the maintenance costs and expenses of the subject trademarks.

The Stock Exchange has granted a waiver to the Group from strict compliance of the requirements of Chapter 20 of the GEM Listing Rules provided that the annual aggregate payment to SEH in any one year under the agreement shall not exceed HK\$3 million.

Accrued trademark costs amounted to HK\$800,000 during the year ended on 31st March, 2001.

b. Technical consulting services

The Group entered into an agreement with a subsidiary of Hanny Holdings Limited on 19th May, 2000 for a term of three years for the provision of technical consulting services including the production of websites, content development, web-page design, computer software development and the installation of computer software to the Group.

The Stock Exchange has granted a waiver to the Group from strict compliance of the requirements of Chapter 20 of the GEM Listing Rules provided that the annual consideration payable by the Group in relation to such technical consulting services in any one year shall not exceed HK\$11 million.

During the year ended 31st March, 2001, the Group incurred charges of approximately HK\$2,674,000 in relation to such technical consulting services.

c. Advertising services

On 19th May, 2000, the Group entered into an agreement with a wholly-owned subsidiary of SEH, pursuant to which the Group would provide advertising services on its network to SEH.

The Stock Exchange has granted a waiver to the Group from strict compliance of the requirements of Chapter 20 of the GEM Listing Rules provided that the annual consideration payable by the Group in relation to such advertising services in any one year shall not exceed HK\$5 million.

The Group has charged SEH approximately HK\$4,478,000 for such advertising services for the year ended 31st March, 2001.





## Directors' Report

### DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

d. Movie sponsorship

On 19th May, 2000, the Group entered into an agreement with Star East Bob Limited (formerly Bob & Partners Co., Limited) ("Bob"), a wholly-owned subsidiary of SEH, for a term of three years, pursuant to which the Group would provide sponsorship to Bob for its productions at an annual consideration of not more than HK\$10 million. In return, Bob will arrange for the artistes performing in the relevant films or television programme to participate in the Group's programme on the internet.

The Stock Exchange has granted a waiver to the Group from strict compliance of the requirements of Chapter 20 of the GEM Listing Rules provided that the annual consideration payable by the Group in relation to such sponsorship in any one year shall not exceed HK\$10 million.

The Group has incurred approximately HK\$780,000 to Bob during the year ended 31st March, 2001 for such sponsorship.

e. Content provision agreements

Pursuant to the distribution agreement dated 17th March, 2000 between Bob and Star East Multimedia Limited, a wholly-owned subsidiary of the Company, the Group paid a total of HK\$5,000,000 during the year ended 31st March, 2001 for the exclusive right to distribute Bob's film titles on the internet.

The Stock Exchange has granted a waiver to the Group from strict compliance of the requirements of Chapter 20 of the GEM Listing Rules provided that the annual payment by the Group under such distribution agreement in any one year shall not exceed HK\$10 million.

f. Celebrity contracts

Star East On-line Limited ("Star East On-line"), a wholly-owned subsidiary of the Company, has entered into contracts with Mr. Tam Wing Lun, Alan and Mr. Chan Pak Cheung, Natalis, executive directors of the Company. Under the contracts, Star East On-line shall set up official websites for Mr. Tam and Mr. Chan, who will participate in the activities conducted for the official websites. Mr. Tam and Mr. Chan are entitled to remuneration equal to half share of the revenue derived from the official websites (including but not limited to fees chargeable to users and income from advertisements on and sponsorship for the official websites). The Group did not incur any payment to Mr. Tam and Mr. Chan under these contracts during the year ended 31st March, 2001.

On 23rd February, 2000, Star East On-line entered into an agreement with Dr. Chan Kong Sang, Jackie, a non-executive director of the Company, and his manager. Pursuant to the agreement, Dr. Chan grants to Star East On-line the rights to use, operate and manage his official website and to use certain promotional materials. Pursuant to a supplemental agreement dated 17th May, 2000 between Star East On-line, Dr. Chan and his manager, the parties agreed that the gross income derived from the official website (including but not limited to fees chargeable to users and income from advertisements on and sponsorship for the official websites) shall be shared between them on an equal basis except that for all e-commerce transactions related to Dr. Chan's official website, the parties will determine the sharing of the gross income on a case-by-case basis, having regard to the source and nature of the e-commerce revenue, production costs involved and the extent of participation of Dr. Chan in the activities generating the income, provided that Dr. Chan's proportion shall not exceed 50% in any event. During the year ended 31st March, 2001, the Group incurred approximately HK\$390,000 under this agreement.



## Directors' Report

g. Web-hosting and internet network services

As announced by the Company on 9th January, 2001, iLink.net Limited, a then subsidiary of Pacific Century Cyberworks Limited, agreed to provide Star East Website Limited, a wholly-owned subsidiary of the Group, web-hosting and internet network services for a period of 12 months at a total consideration of HK\$3,270,000 (including optional services of HK\$616,000 in respect of the Group's Beijing website) commencing on 30th December, 2000.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that these connected transactions have been entered into:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms that are no less favourable than terms available to (or from) independent third parties; and
- (iii) in accordance with the terms of the agreements governing such transactions, which are fair and reasonable and in the interest of the Company's shareholders as a whole.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31st March, 2001 or at any time during the year ended 31st March, 2001.

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Hanny Holdings Limited <sup>(1)</sup>	225,760,000	22.01%
Hanny Magnetics (B.V.I.) Limited <sup>(2)</sup>	225,760,000	22.01%
Genius Ideas Limited	225,760,000	22.01%
Star East Holdings Limited <sup>(3)</sup>	367,690,000	35.85%
Star East (B.V.I.) Limited <sup>(4)</sup>	367,690,000	35.85%
Star East Information Technology Management Co. Limited	332,000,000	32.37%
Li Tzar Kai, Richard <sup>(5)</sup>	332,000,000	32.37%
Pacific Century Group Holdings Limited <sup>(6)</sup>	332,000,000	32.37%
Pacific Century International Limited <sup>(7)</sup>	332,000,000	32.37%
Pacific Century Group (Cayman Islands) Limited <sup>(8)</sup>	332,000,000	32.37%
Anglang Investments Limited <sup>(9)</sup>	332,000,000	32.37%
Pacific Century Regional Developments Limited <sup>(10)</sup>	332,000,000	32.37%
Pacific Century CyberWorks Limited <sup>(11)</sup>	332,000,000	32.37%
Century Power Group Limited <sup>(12)</sup>	332,000,000	32.37%
CyberVentures (Bermuda) Limited <sup>(13)</sup>	332,000,000	32.37%
CyberWorks Ventures Limited <sup>(14)</sup>	332,000,000	32.37%
Splendid Stars Group Limited <sup>(15)</sup>	332,000,000	32.37%
Yasumitsu Shigeta <sup>(16)</sup>	149,400,000	14.57%
Hikari Power, Limited <sup>(17)</sup>	149,400,000	14.57%
Hikari Tsushin, Inc. <sup>(18)</sup>	149,400,000	14.57%

#### Notes:

- (1) By reason of its 100% indirect interest in Genius Ideas Limited through Hanny Magnetics (B.V.I.) Limited.
- (2) By reason of its 100% direct interest in Genius Ideas Limited.
- (3) By reason of its 100% direct interest in Star East (B.V.I.) Limited.
- (4) Including direct interest and indirect interest through Star East Information Technology Management Co. Limited.
- (5) By reason of his over one-third interest in Pacific Century Group Holdings Limited.
- (6) By reason of its over one-third interest in Pacific Century International Limited.
- (7) By reason of its over one-third interest in Pacific Century Group (Cayman Islands) Limited.



## Directors' Report

### SUBSTANTIAL SHAREHOLDERS (continued)

*Notes:* (continued)

- (8) By reason of its over one-third interest in Anglang Investments Limited and Pacific Century Regional Developments Limited.
- (9) By reason of its over one-third interest in Pacific Century Regional Developments Limited.
- (10) By reason of its over one-third interest in Pacific Century CyberWorks Limited.
- (11) By reason of its over one-third interest in Century Power Group Limited.
- (12) By reason of its over one-third interest in CyberVentures (Bermuda) Limited.
- (13) By reason of its over one-third interest in CyberWorks Ventures Limited.
- (14) By reason of its over one-third interest in Splendid Stars Group Limited.
- (15) By reason of its 50% direct interest in Star East Information Technology Management Co. Limited.
- (16) By reason of his over one-third interest in Hikari Power, Limited.
- (17) By reason of its over one-third interest in Hikari Tsushin, Inc.
- (18) Including direct interest and indirect interest through its subsidiary.

Save as disclosed above, the directors are not aware of any other person having an interest in shares representing 10% or more of the Company's issued share capital.



## Directors' Report

### SPONSORS' INTERESTS

As updated and notified by the Company's sponsors, BNP Paribas Peregrine Capital Limited ("BNP Paribas") and Tai Fook Capital Limited ("Tai Fook") (the "Sponsors"), as at 31st March, 2001 neither the Sponsors nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

By a termination agreement dated 30th May, 2001, Tai Fook ceased to be the Company's sponsor with effect from 31st May, 2001. BNP Paribas remains the sole sponsor of the Company under the sponsors agreement dated 22nd May, 2000 until 31st March, 2003.

BNP Paribas received a fee for acting as the Company's retained sponsor for the period between 22nd May, 2000 and 31st March, 2001.

### COMPETING INTERESTS

Set out below is information disclosed pursuant to Rule 11.04 of the GEM Listing Rules:

Hanny Holdings Limited ("Hanny"), a management shareholder of the Company, is engaged in, inter alia, development of Chinese and bilingual websites and provision of e-business consulting services. Dr. Chan Kwok Keung, Charles, director of a subsidiary of the Company, is also the Chairman of Hanny. However, Dr. Chan has not assumed any management role in this subsidiary nor any other companies within the Group.

Given the relatively small scale of the Group's information technology consulting business, and the fact that such business targets at a different geographical market from that of Hanny, the directors do not believe that there is any significant risk of competition between the Group's information technology consulting business and that of Hanny.

Save as disclosed above, the directors believe that none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest in a business which competes or is likely to compete with the business of the Group.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March, 2001.

### AUDIT COMMITTEE

The Company established an audit committee on 15th May, 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Bradford Allen, Mr. Dominic Lai and Mr. Vincent Ting Kau Cheung.

The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee held five meetings since its formation in May 2000.





## Directors' Report

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

### RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme are set out in note 32 to the financial statements.

### CORPORATE GOVERNANCE

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on the GEM on 1st June, 2000.

### DONATIONS

During the year, the Group made donations amounting to approximately HK\$662,000.

### AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

**TAM WING LUN, ALAN**

*Chairman*

Hong Kong, 13th June, 2001

## AUDITORS' REPORT

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

#### TO THE MEMBERS OF STAREASTNET.COM CORPORATION

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 38 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong, 13th June, 2001

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
TURNOVER	3	48,383	10,375
COST OF SALES		<u>(89,201)</u>	<u>(23,505)</u>
GROSS LOSS		(40,818)	(13,130)
ADVERTISING AND PROMOTION EXPENSES		(37,597)	(20,073)
ADMINISTRATIVE EXPENSES		<u>(81,191)</u>	<u>(47,512)</u>
LOSS FROM OPERATIONS		(159,606)	(80,715)
COST OF STREAMLINING OPERATIONS	4	(12,814)	-
INTEREST INCOME		4,634	1,063
OTHER REVENUE		773	-
FINANCE COSTS	5	(6,868)	(163)
SHARE OF RESULTS OF AN ASSOCIATE		<u>(382)</u>	<u>-</u>
NET LOSS FOR THE YEAR	6	<u>(174,263)</u>	<u>(79,815)</u>
LOSS PER SHARE (CENTS)	11	<u>(17.548)</u>	<u>(9.616)</u>

## CONSOLIDATED BALANCE SHEET

At 31st March, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment	12	54,139	43,858
Intangible assets	13	5,875	8,875
Prepaid airtime	23	41,806	41,806
Interest in an associate	15	98	-
Investments in securities	16	10,000	-
		<b>111,918</b>	<b>94,539</b>
<b>CURRENT ASSETS</b>			
Inventories	17	2,578	-
Accounts receivable		7,968	3,142
Prepaid expenses and other current assets		4,351	10,170
Receivables from related parties	23	5,353	5,386
Bank balances and cash		57,476	7,904
		<b>77,726</b>	<b>26,602</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and other liabilities		25,972	29,827
Payable to an associate		325	-
Payables to related parties	23	9,279	17,799
Obligations under finance leases – due within one year	18	728	719
		<b>36,304</b>	<b>48,345</b>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>41,422</b>	<b>(21,743)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>153,340</b>	<b>72,796</b>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases – due after one year	18	186	893
Payables to shareholders	19	68,230	-
		<b>68,416</b>	<b>893</b>
		<b>84,924</b>	<b>71,903</b>

## Consolidated Balance Sheet

At 31st March, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	20	102,550	8
Reserves	22	(17,626)	71,895
		<u>84,924</u>	<u>71,903</u>

The financial statements on pages 38 to 76 were approved by the Board of Directors on 13th June, 2001 and are signed on its behalf by:

**WONG KUN TO**  
Director

**CHAN PAK CHEUNG, NATALIS**  
Director



## BALANCE SHEET

At 31st March, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSET</b>			
Interests in subsidiaries	14	<u>153,241</u>	<u>-</u>
<b>CURRENT ASSETS</b>			
Prepaid expenses and other current assets		204	-
Receivable from a related party	23	<u>18</u>	<u>-</u>
		222	-
<b>CURRENT LIABILITY</b>			
Other payables and accrued expenses		<u>1,112</u>	<u>-</u>
<b>NET CURRENT LIABILITY</b>		<u>(890)</u>	<u>-</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITY</b>		152,351	-
<b>NON-CURRENT LIABILITY</b>			
Payables to shareholders	19	<u>68,230</u>	<u>-</u>
		<u>84,121</u>	<u>-</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	20	102,550	-
Reserves	22	<u>(18,429)</u>	<u>-</u>
		<u>84,121</u>	<u>-</u>

**WONG KUN TO**  
Director

**CHAN PAK CHEUNG, NATALIS**  
Director

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March, 2001

	2001 HK\$'000	2000 HK\$'000
Exchange gain arising on translation of accounts of overseas operations not recognised in the income statement	1	-
Net loss for the year	<u>(174,263)</u>	<u>(79,815)</u>
Total recognised losses	(174,262)	(79,815)
Goodwill arising on acquisition of subsidiaries eliminated against reserves	(12,948)	-
Goodwill arising on acquisition of an associate eliminated against reserves	<u>(2,520)</u>	<u>-</u>
	<u><b>(189,730)</b></u>	<u><b>(79,815)</b></u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	24	<b>(157,692)</b>	<b>(46,702)</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		4,634	1,063
Finance lease charges		(138)	(107)
Interest paid		-	(56)
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		<b>4,496</b>	<b>900</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(44,454)	(45,637)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	25	(7,515)	-
Payment of intangible assets		(5,000)	-
Investment in an associate		(2,600)	-
Net cash outflow from disposal of subsidiaries	26	(1)	-
Proceeds from disposal of property and equipment		5,389	-
Payment of airtime		-	(50,806)
Refund of prepaid airtime		-	9,000
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(54,181)</b>	<b>(87,443)</b>
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		<b>(207,377)</b>	<b>(133,245)</b>
<b>FINANCING</b>	27		
Net proceeds from issue of new shares		230,690	141,753
Loans from shareholders		61,500	-
Share issue expenses		(34,543)	-
Repayment of obligations under finance leases		(698)	(604)
<b>NET CASH INFLOW FROM FINANCING</b>		<b>256,949</b>	<b>141,149</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>49,572</b>	<b>7,904</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>7,904</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH</b>		<b>57,476</b>	<b>7,904</b>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 31st January, 2000.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") formed after the completion of the Group Reorganisation on 18th May, 2000. The shares of the Company were listed on the GEM of the Stock Exchange on 1st June, 2000.

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of STAREASTnet (BVI) Limited ("STAREASTnet (BVI)"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the years ended 31st March, 2000 and 31st March, 2001 have been prepared using the merger method of accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions".

The Group is a Chinese language media group seeking to provide multimedia entertainment and life-style information to the Chinese community world-wide. The Group produces and distributes original interactive programming through its network of vertically-integrated entertainment portals.

Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 23rd May, 2000.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

#### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill (continued)

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall, respectively, of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as described above.

On the disposal of investments in subsidiaries and associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

#### Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

#### Revenue recognition

Advertising revenues are derived from the sales of banner advertisements and sponsorships on the Group's website. Advertising revenues are recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.

Revenues from sponsorship arrangements are recognised on a straight-line basis over the contract term, provided that the Group has no significant obligations remaining.

Revenue from consulting services is recognised when services are provided.

Sales of goods are recognised when goods are delivered and title has passed and the collectibility of the amount receivable is reasonably assured.



## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

Revenues from internet website content sales are recognised on a straight-line basis over the contract term if the revenues for the service are fixed.

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

#### Software research and development costs

Costs incurred in the research and development of software products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, no significant software research and development costs were incurred.

#### Prepaid airtime

Prepaid airtime represents amounts paid to reserve airtime, both television and internet, for future usage by the Group. Prepaid airtime is amortised over the life of the contract based on the Group's actual usage and at the rates as stipulated in the contracts.

#### Intangible assets

The intangible assets represent the exclusive licence to distribute, exploit and exhibit specified films on the internet or any other media of a similar nature. They are initially stated at cost, and are amortised over the licenced period of three years on a straight-line basis.

#### Property and equipment

Property 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 present working condition and location for its intended use. Expenditure for additions and improvements is capitalised and expenditure for maintenance and repairs is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment (continued)

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives, on a straight-line basis, at the following rates per annum:

Leasehold improvements	Shorter of the lease term or 5 years
Furniture, fixtures and equipment	20%
Network and computer equipment	33 $\frac{1}{3}$ %
Operating equipment	20%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

#### Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

#### Inventories

Inventories, being goods for resale, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies (continued)

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Hong Kong dollars at the exchange rates ruling on the balance sheet date. Income and expenses are translated into Hong Kong dollars at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and are recognised as income or expenses in the period in which the operation is disposed of.

#### Leases

Assets held under finance leases are capitalised 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.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the term of the relevant lease.

#### Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 3. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and contribution to the loss from operations analysed by principal activity and geographical market, were as follows:

	Turnover		Contribution to loss from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Advertising and sponsorship	28,905	7,079	(105,375)	(56,050)
Consulting services	12,962	–	(23,019)	–
Sales of goods, net of discounts and allowances	4,704	3,296	(11,746)	(21,074)
Internet website content sales	1,812	–	(3,696)	–
	<u>48,383</u>	<u>10,375</u>	<u>(143,836)</u>	<u>(77,124)</u>
Unallocated corporate expenses			<u>(15,770)</u>	<u>(3,591)</u>
Loss from operations			<u>(159,606)</u>	<u>(80,715)</u>
By geographical market:				
Hong Kong	41,427	10,375	(106,799)	(68,286)
Other region in the People's Republic of China (the "PRC")	2,627	–	(4,582)	–
Others	4,329	–	(32,455)	(8,838)
	<u>48,383</u>	<u>10,375</u>	<u>(143,836)</u>	<u>(77,124)</u>
Unallocated corporate expenses			<u>(15,770)</u>	<u>(3,591)</u>
Loss from operations			<u>(159,606)</u>	<u>(80,715)</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 4. COST OF STREAMLINING OPERATIONS

As a result of market changes, the Group has streamlined its operations in order to optimise its resource allocation. The expenses incurred as a result of this exercise were as follows:

	2001 HK\$'000	2000 HK\$'000
Impairment loss recognised on network and computer equipment	6,361	-
Staff redundancy expenses and others	2,309	-
Loss on disposal of subsidiaries	2,148	-
Loss on disposal of property and equipment	1,996	-
	<u>12,814</u>	<u>-</u>

### 5. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Shareholders' loans	6,730	56
Finance leases	138	107
	<u>6,868</u>	<u>163</u>





## Notes to the Financial Statements

For the year ended 31st March, 2001

### 7. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	900	-
Non-executive	300	-
	<u>1,200</u>	<u>-</u>
Other emoluments:		
Executive		
Salaries and other benefits	2,529	422
Retirement benefits scheme contributions	7	-
	<u>2,536</u>	<u>422</u>
Total emoluments	<u>3,736</u>	<u>422</u>

The emoluments of the directors were within the following bands:

	No. of directors	
	2001	2000
HK\$Nil to HK\$1,000,000	10	9
HK\$2,500,001 to HK\$3,000,000	1	-
	<u>11</u>	<u>9</u>

There were six directors who received emoluments of approximately HK\$2,836,000, HK\$300,000, HK\$300,000, HK\$100,000, HK\$100,000 and HK\$100,000 respectively for the year ended 31st March, 2001 and one director who received emoluments of approximately HK\$422,000 for the year ended 31st March, 2000. The other directors do not receive any emoluments during the year.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

In addition to the above, during the year ended 31st March, 2000, included in the salaries reimbursed to the group companies of ITC Corporation Limited ("ITC") and of Star East Holdings Limited ("SEH"), details of which are set out in note 23, was an amount of HK\$2,669,000 paid in respect of the services provided to the Group by ITC's and SEH's employee who was subsequently appointed as a director of the Company.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2000: Nil) was a director of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining four (2000: five) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	5,459	3,244
Incentive paid on joining	-	500
Retirement benefits scheme contributions	21	-
	<u>5,480</u>	<u>3,744</u>

Their emoluments are within the following bands:

	No. of employees 2001	2000
HK\$Nil to HK\$1,000,000	-	5
HK\$1,000,001 to HK\$1,500,000	3	-
HK\$1,500,001 to HK\$2,000,000	1	-
	<u>4</u>	<u>5</u>

### 9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both years.

Details of potential deferred taxation are set out in note 29.

### 10. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK\$174,263,000 (2000: HK\$79,815,000), a loss of HK\$147,615,000 (2000: HK\$Nil) has been dealt with in the financial statements of the Company.

### 11. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$174,263,000 (2000: HK\$79,815,000) and the weighted average number of approximately 993,060,000 shares (2000: 830,000,000 shares) in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue of 530,000,000 shares of the Company had been effective on 1st April, 1999.

No amount has been presented for the diluted loss per share for either year as the exercise of the Company's outstanding share options would have an anti-dilutive effect on the loss per share.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 12. PROPERTY AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Network and computer equipment <i>HK\$'000</i>	Operating equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
<b>COST</b>						
At 1st April, 2000	4,178	1,305	36,396	5,718	256	47,853
On acquisitions of subsidiaries	340	371	3,353	–	–	4,064
Additions	5,187	2,090	34,909	2,268	–	44,454
Disposals	(5,183)	(908)	(1,144)	(3,326)	(120)	(10,681)
Provision for impairment in value <i>(Note 4)</i>	–	–	(6,361)	–	–	(6,361)
On disposal of subsidiaries	–	–	(2,943)	–	–	(2,943)
At 31st March, 2001	4,522	2,858	64,210	4,660	136	76,386
<b>DEPRECIATION</b>						
At 1st April, 2000	758	106	2,663	439	29	3,995
On acquisitions of subsidiaries	58	19	128	–	–	205
Provided for the year	2,798	544	17,713	1,139	49	22,243
Eliminated on disposals	(2,422)	(123)	(285)	(422)	(44)	(3,296)
On disposal of subsidiaries	–	–	(900)	–	–	(900)
At 31st March, 2001	1,192	546	19,319	1,156	34	22,247
<b>NET BOOK VALUES</b>						
At 31st March, 2001	3,330	2,312	44,891	3,504	102	54,139
At 31st March, 2000	3,420	1,199	33,733	5,279	227	43,858

Included in property and equipment are assets held under finance leases with net book values of HK\$915,000 (2000: HK\$1,631,000).

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 13. INTANGIBLE ASSETS

	<b>THE GROUP</b>	
	<b>2001</b> <b>HK\$'000</b>	<b>2000</b> <b>HK\$'000</b>
<b>COST</b>		
At beginning of the year	<b>9,000</b>	–
Acquired during the year	<b>–</b>	9,000
	<hr/>	<hr/>
At end of the year	<b>9,000</b>	9,000
	<hr/>	<hr/>
<b>AMORTISATION</b>		
At beginning of the year	<b>125</b>	–
Provided for the year	<b>3,000</b>	125
	<hr/>	<hr/>
At end of the year	<b>3,125</b>	125
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>		
At end of the year	<b>5,875</b>	8,875
	<hr/>	<hr/>

### 14. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b> <b>HK\$'000</b>	<b>2000</b> <b>HK\$'000</b>
Unlisted shares, at deemed cost	<b>35,589</b>	–
	<hr/>	<hr/>
Amount due from a subsidiary	<b>261,594</b>	–
Provision for impairment	<b>(143,942)</b>	–
	<hr/>	<hr/>
	<b>117,652</b>	–
	<hr/>	<hr/>
	<b>153,241</b>	–
	<hr/>	<hr/>

The deemed cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Reorganisation as explained in note 1.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Details of the Company's principal subsidiaries as at 31st March, 2001 are set out in note 33.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 14. INTERESTS IN SUBSIDIARIES (continued)

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date and accordingly, it is shown as non-current.

### 15. INTEREST IN AN ASSOCIATE

Share of net assets

THE GROUP	
2001 HK\$'000	2000 HK\$'000
<b>98</b>	-

As at 31st March, 2001, the Group held 40% of the issued share capital of Sherity International Limited, a company incorporated in Hong Kong which is engaged in website development.

### 16. INVESTMENTS IN SECURITIES

Unlisted shares, at cost

THE GROUP	
2001 HK\$'000	2000 HK\$'000
<b>10,000</b>	-

The investment mainly represents a 5% equity interest in Panorama Entertainment Holdings Limited ("Panorama"), a company incorporated in the British Virgin Islands and principally engaged in the distribution of video compact discs, digital versatile discs and other video products.

The directors are of the opinion that the investment is worth at least its carrying value.

### 17. INVENTORIES

Included in inventories is an amount of HK\$2,249,000 (2000: HK\$Nil) carried at net realisable value.



## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 18. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

Within one year  
More than one year but not exceeding two years  
More than two years but not exceeding five years

Less: Amount due within one year shown under current liabilities

Amount due after one year

#### THE GROUP

2001 HK\$'000	2000 HK\$'000
728	719
162	719
24	174
<b>914</b>	1,612
<b>(728)</b>	(719)
<b>186</b>	893

### 19. PAYABLES TO SHAREHOLDERS

The Group and the Company:

The amounts include loans of HK\$61,500,000 (2000: HK\$Nil) from shareholders, which are unsecured, bear interest at the best lending rate in Hong Kong dollars plus 2% per annum and are repayable on 30th April, 2003. The remaining balance of HK\$6,730,000 (2000: HK\$Nil) represents accrued interest thereon which is also unsecured and repayable on 30th April, 2003.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 20. SHARE CAPITAL

	No. of shares denominated in		Amount
	US\$	HK\$	HK\$'000
Authorised:			
Ordinary shares of US\$0.10 each at 31st January, 2000 (date of incorporation) <i>(note a)</i>	500,000	-	390
At 31st March, 2000 and 1st April, 2000	500,000	-	390
Increase of ordinary shares of HK\$0.10 each during the year <i>(note b)</i>	-	10,000,000,000	1,000,000
Cancellation of ordinary shares of US\$0.10 each during the year <i>(note b)</i>	(500,000)	-	(390)
Ordinary shares of HK\$0.10 each at 31st March, 2001	-	10,000,000,000	1,000,000
Issued and fully paid:			
Issue of ordinary shares of US\$0.10 each to initial subscribers on 28th February, 2000 <i>(note a)</i>	2	-	-
At 31st March, 2000 and 1st April, 2000	2	-	-
Ordinary shares of US\$0.10 each repurchased during the year <i>(note b)</i>	(2)	-	-
Issue of ordinary shares of HK\$0.10 each <i>(note b)</i>	-	2	-
Capitalisation issue of ordinary shares of HK\$0.10 each <i>(note c(ii))</i>	-	530,000,000	53,000
Issue of ordinary shares of HK\$0.10 each pursuant to the Group Reorganisation <i>(note d)</i>	-	299,999,998	30,000
Issue of ordinary shares of HK\$0.10 each upon listing of the Company's shares on GEM <i>(note c(i))</i>	-	170,000,000	17,000
Issue of ordinary shares of HK\$0.10 each on exercise of over-allotment option <i>(note e)</i>	-	25,500,000	2,550
Ordinary shares of HK\$0.10 each at 31st March, 2001	-	1,025,500,000	102,550

For the purpose of the preparation of the financial statements, the balance of the share capital shown in the consolidated balance sheet at 31st March, 2000 represented the issued capital of STAREASTnet (BVI) which was acquired by the Company on 18th May, 2000 pursuant to the Group Reorganisation.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 20. SHARE CAPITAL (continued)

Details of changes in the Company's share capital for the period from 31st January, 2000 (date of incorporation) to 31st March, 2001 are as follows:

- (a) The Company was incorporated on 31st January, 2000 with an authorised share capital of US\$50,000 divided into 500,000 shares of US\$0.10 each. On 28th February, 2000, two shares of US\$0.10 each were allotted and issued, for cash at par, to provide the initial capital to the Company and such shares were then transferred to a sole shareholder. At 31st March, 2000, the Company's issued and fully paid capital was US\$0.20. The amount of issued share capital as at 31st March, 2000 had not been disclosed in the Company's balance sheet as the amount was insignificant.
- (b) Pursuant to a written resolution of the sole shareholder of the Company passed on 2nd May, 2000, the authorised share capital of the Company was increased by HK\$1,000,000,000 by the creation of an additional 10,000,000,000 shares of HK\$0.10 each. The then two issued existing shares of US\$0.10 each were repurchased and cancelled and the unissued share capital of US\$49,999.80 was also cancelled. Two shares of HK\$0.10 each were issued to Star East (B.V.I.) Limited ("Star East (BVI)"), credited as fully paid.
- (c) Pursuant to the resolutions passed by the sole shareholder of the Company on 15th May, 2000:
  - (i) the Company issued 170,000,000 new shares of HK\$0.10 each for cash at HK\$1.18 per share on 29th May, 2000 (the "Share Offer"); and
  - (ii) HK\$53,000,000 of the share premium account of the Company, which was credited as a result of the Share Offer, was capitalised and applied in paying up in full at par 530,000,000 shares for allotment and issue to holders of shares on the register of members of the Company as at 23rd May, 2000 pro rata to their shareholdings on a basis of 53 shares for every 30 shares held by the shareholders on 30th May, 2000.
- (d) The companies comprising the Group underwent a group reorganisation to rationalise the Group's structure in preparation for the listing of the shares on GEM of the Stock Exchange, pursuant to which the Company became the ultimate holding company within the Group. Pursuant to an agreement entered into on 18th May, 2000, the Company acquired the entire issued share capital of STAREASTnet (BVI), the then holding company of the Group, from its then shareholders Hikari Tsushin, Inc., Star East (BVI), Star East Information Technology Management Co. Limited, Gold Miracles Limited and Genius Ideas Limited and, in consideration for such acquisition, the Company allotted and issued 299,999,998 shares in aggregate, credited as fully paid at HK\$0.10 each, to the then existing shareholders of STAREASTnet (BVI).
- (e) In June 2000, 25,500,000 new shares of HK\$0.10 each in the Company were issued for cash at a price of HK\$1.18 per share as a result of the exercise of over-allotment option by underwriters.

All the shares issued during the period rank *pari passu* with the then existing shares in all respects.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 21. SHARE OPTIONS

#### Employee Share Option Scheme

Pursuant to an employee share option scheme (the "Employee Share Option Scheme") of the Company adopted on 15th May, 2000, the Board may grant options to full-time employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price which will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets on the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share. An option may be exercised in accordance with the terms of the Employee Share Option Scheme at any time during a period commencing 1 year after the date of grant of the option and ending 5 years after the date of grant of the option in accordance with the following schedule:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Year 1	zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the option has not been previously exercised

The maximum number of shares in respect of which options may be granted under the Employee Share Option Scheme (or under any other similar schemes, including the Pre-IPO Share Option Scheme as described below) shall be such number which, in aggregate, does not exceed 30% of the issued share capital of the Company from time to time.

Details of the share options granted by the Company during the year pursuant to the Employee Share Option Scheme are as follows:

Option period	Number of share options			
	Exercise price per share HK\$	Granted during the year	Lapsed during the year	Outstanding as at 31.3.2001
5th September, 2000 to 4th September, 2005	1.75	5,880,000	680,000	5,200,000
10th January, 2001 to 9th January, 2006	1.10	29,585,000	810,000	28,775,000
		<u>35,465,000</u>	<u>1,490,000</u>	<u>33,975,000</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 21. SHARE OPTIONS (continued)

#### Pre-IPO Share Option Scheme

Pursuant to another share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 15th May, 2000, the Board granted options comprising a total of 69,100,000 underlying shares to directors of the Company and its subsidiaries at an exercise price of HK\$1.18 per share on 26th May, 2000.

In addition, on the same date the Company granted options comprising a total of 29,940,000 underlying shares to certain employees and contracted celebrities of the Group other than directors of the Company and its subsidiaries.

Options granted under the Pre-IPO Share Option Scheme are valid for 5 years from the date of grant, and are subject to the same limitations on timing of exercise contained in the Employee Share Option Scheme as disclosed above.

Details of the share options granted by the Company on 26th May, 2000 pursuant to the Pre-IPO Share Option Scheme are as follows:

Option period	Number of share options			
	Exercise price per share HK\$	Granted during the year	Lapsed during the year	Outstanding as at 31.3.2001
26th May, 2000 to 25th May, 2005	1.18	99,040,000	5,700,000	93,340,000

The Company received nominal consideration for options granted during the year under the Employee Share Option Scheme, and no consideration was received under the Pre-IPO Share Option Scheme.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 22. RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st April, 1999	-	-	-	-	-	(197)	(197)
Premium arising from issue of shares	165,448	-	-	-	-	-	165,448
Share issue expenses	(13,535)	-	-	-	-	-	(13,535)
Issue of bonus shares	(6)	-	-	-	-	-	(6)
Net loss for the year	-	-	-	-	-	(79,815)	(79,815)
At 31st March, 2000 and 1st April, 2000	151,907	-	-	-	-	(80,012)	71,895
Premium arising from the Share Offer	183,600	-	-	-	-	-	183,600
Premium arising from the exercise of over-allotment option	27,540	-	-	-	-	-	27,540
Share issue expenses	(34,543)	-	-	-	-	-	(34,543)
Capitalisation issue	(53,000)	-	-	-	-	-	(53,000)
Reserve (reversed) arising from Group Reorganisation	(151,907)	121,914	-	-	-	-	(29,993)
Goodwill arising from acquisition of subsidiaries	-	-	(12,948)	-	-	-	(12,948)
Goodwill arising from acquisition of an associate	-	-	(2,520)	-	-	-	(2,520)
Goodwill released on disposal of subsidiaries	-	-	6,605	-	-	-	6,605
Exchange differences arising from translation of accounts of overseas operations	-	-	-	1	-	-	1
Net loss for the year	-	-	-	-	-	(174,263)	(174,263)
At 31st March, 2001	123,597	121,914	(8,863)	1	-	(254,275)	(17,626)
Reserves retained by:							
The Company and subsidiaries	123,597	121,914	(8,863)	1	-	(253,893)	(17,244)
An associate	-	-	-	-	-	(382)	(382)
	123,597	121,914	(8,863)	1	-	(254,275)	(17,626)



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 22. RESERVES (continued)

	Share premium HK\$'000	Merger reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>							
At 31st January, 2000 (date of incorporation) and 31st March, 2000	-	-	-	-	-	-	-
Premium arising from the Share Offer	183,600	-	-	-	-	-	183,600
Premium arising from the exercise of over-allotment option	27,540	-	-	-	-	-	27,540
Share issue expenses	(34,543)	-	-	-	-	-	(34,543)
Capitalisation issue	(53,000)	-	-	-	-	-	(53,000)
Reserve arising from Group Reorganisation	-	-	-	-	5,589	-	5,589
Net loss for the year (note 10)	-	-	-	-	-	(147,615)	(147,615)
At 31st March, 2001	<u>123,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,589</u>	<u>(147,615)</u>	<u>(18,429)</u>

For the purpose of the preparation of the financial statements, the balance of the share premium shown in the consolidated balance sheet at 31st March, 2000 represented the share premium of STAREASTnet (BVI) which was acquired by the Company on 18th May, 2000 pursuant to the Group Reorganisation.

There were no reserves available for distribution to shareholders of the Company as at 31st March, 2001 and 2000.

The merger reserve of the Group represents the difference between the nominal amount of the share capital and share premium of STAREASTnet (BVI) at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group Reorganisation as set out in note 1.

The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued for the acquisition.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 23. RELATED PARTY BALANCES AND TRANSACTIONS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Prepaid airtime to Pacific Convergence Corporation, Limited ("PCC") (note i)	<b>41,806</b>	41,806	-	-
Receivables from related parties consist of the amounts due from the following companies:				
Group companies of Paul Y. - ITC Construction Holdings Limited ("Paul Y.") (note ii)	<b>1,325</b>	1,865	-	-
SEH (note iii)	<b>3,953</b>	2,921	<b>18</b>	-
Group company of Tung Fong Hung (Holdings) Limited ("TFH") (note iv)	-	300	-	-
Success Target Limited ("Success Target") (note iv)	-	300	-	-
Others	<b>75</b>	-	-	-
	<b>5,353</b>	5,386	<b>18</b>	-
Payables to related parties consist of the amounts due to the following companies:				
Group companies of Pacific Century Cyberworks Limited ("PCCW") (note iii)	<b>2,473</b>	-	-	-
Group companies of Hanny Holdings Limited ("Hanny") (note iii)	<b>1,007</b>	3,260	-	-
Paul Y. (note ii)	<b>372</b>	1,946	-	-
SEH (note iii)	<b>5,195</b>	12,593	-	-
ITC (note iii)	<b>232</b>	-	-	-
	<b>9,279</b>	17,799	-	-
Payables to shareholders (note 19)	<b>68,230</b>	-	<b>68,230</b>	-

The receivables from and payables to the related parties are unsecured and have no fixed repayment terms. These balances arise from the Group's trading activities and accordingly are interest free.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

*Notes:*

- (i) The Group on 24th August, 1999 entered into a contract with PCC, an affiliate of PCCW, a company which has beneficial interest in the Company, to secure and pre-occupy a future Pan Asia promotion platform for access to airtime, including television and internet. The amount paid by the Group under the contract was approximately US\$6,556,000, equivalent to approximately HK\$50,806,000. This airtime would be used for marketing and promotion purposes. The contract contained, among others, the following terms:
  - a. The value of the airtime used by the Group would be based on the then current fees and charges in PCC's rate cards;
  - b. The airtime must be used by the Group within a two-year period commencing upon the expiry of two years after the contract date;
  - c. The airtime might be sold by the Group to third parties provided that it was not at rates lower than PCC's then current rates and charges shown on PCC's rate cards; and
  - d. Any unused airtime at 24th August, 2003 would be forfeited.

On 9th March, 2000 the Group and PCC agreed to modify the terms and conditions of this contract. Pursuant to the new agreement consideration for the airtime was reduced to approximately US\$5,394,000 from approximately US\$6,556,000 and the term of usage of airtime was amended to a two-year period commencing from 30 months after 24th August, 1999 (i.e. 24th February, 2002). The Group had received a cash refund from PCC in the amount of approximately US\$1,162,000, equivalent to approximately HK\$9,000,000, in March 2000.

At 31st March, 2001, no part of the airtime under the contract had been utilised.

The Group's management believes that the remaining airtime will be fully utilised during the contract term. The Group will evaluate the carrying value of this asset whenever circumstances indicate its carrying amount may no longer be recoverable.

On 22nd October, 1999 and 25th November, 1999, the Group entered into two contracts with PCC relating to the access to airtime including television and internet for US\$2,000,000 each. On 9th March, 2000, the Group and PCC mutually agreed to the cancellation of these contracts at no cost to the Group.

- (ii) Paul Y. is an affiliate of ITC, a company which has an indirect beneficial interest in the Company. The amount receivable mainly represents the rental deposits pursuant to operating leases for office premises and the amount payable arose from the transactions entered into with Paul Y. as detailed in the following table.
- (iii) SEH, ITC, Hanny and PCCW are the companies which have beneficial interests in the Group. The balances with SEH arose from the transactions entered into with SEH as detailed in the following table, the licence fee payable to Star East Bob Limited (formerly known as Bob & Partner Co., Limited) ("Bob"), a subsidiary of SEH and the disposals of property and equipment, as set out below. The balances with ITC, Hanny and PCCW arose from certain transactions as detailed in the following table.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Notes: (continued)

- (iv) TFH was an affiliate of ITC. Success Target is a subsidiary of Hikari Tsushin, Inc. ("Hikari") which has a beneficial interest in the Group. The balances arose from certain transactions as detailed in the following table.

The Group entered into the following transactions with related parties during the year:

	2001 HK\$'000	2000 HK\$'000
Advertising and sponsorship revenue (note v)	4,749	3,220
Advertising, promotion and movie sponsorship expenses (note vi)	1,579	3,250
Artistes shooting and consultancy fees (note vii)	79	3,857
Consulting services income (note viii)	3,079	-
Content sales revenue (note ix)	920	-
Entertainment expenses (note x)	1,745	172
Interest expenses (note xi)	6,730	54
Internet leased lines expenses (note xii)	3,124	-
Trademark licence fee (note xiii)	800	-
Office rent and building management expenses (note xiv)	6,434	2,773
Rental income (note xv)	652	-
Salaries (note xvi)	3,452	10,960
Sales of goods (note xvii)	923	-
Sundry expenses (note xviii)	3	47
Technical consulting services fee (note xix)	2,674	-
Telecommunication expenses (note xx)	170	-

- (v) The advertising and sponsorship revenue was received mainly from TFH, SEH, PCCW and Success Target. The amount was charged in accordance with the Group's usual scale charges.
- (vi) The advertising, promotion and movie sponsorship expenses were paid to SEH, TFH, Success Target and Bob. Of this amount, HK\$780,000 represented movie sponsorship paid to Bob, which was charged at negotiated prices by reference to market rates, and the remaining represented actual advertising and promotion expenses incurred by SEH, TFH and Success Target on behalf of the Group.
- (vii) During the year ended 31st March, 2001, the artistes shooting and consultancy fees were paid to SEH. During the year ended 31st March, 2000, the amounts were paid to Gold Miracles Limited ("GML"), which has a beneficial interest in the Group. The amounts were charged at negotiated prices by reference to market rates.
- (viii) The consulting services income was received from Paul Y. and was charged in accordance with the terms of contracts and at cost plus a percentage mark-up.
- (ix) The content sales revenue was received from PCCW and was charged in accordance with the terms of contracts and at cost plus a percentage mark-up.
- (x) The entertainment expenses were paid to SEH. The amounts represented the actual amounts incurred by SEH on behalf of the Group.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

*Notes: (continued)*

- (xi) During the year ended 31st March, 2001, SEH, Hanny, PCCW and GML advanced to the Company an aggregate amount of HK\$61,500,000 bearing interest at the best lending rate in Hong Kong dollars plus 2% per annum. The interest expense charged to the Group was approximately HK\$6,730,000. During the year ended 31st March, 2000, ITC advanced to the Group an aggregate amount of HK\$4,500,000 bearing interest at Hong Kong prime interest rate plus 4% per annum, which was fully repaid by the Group in that year. The interest expense charged by ITC amounted to approximately HK\$54,000.
- (xii) The internet leased lines expenses were paid to PCCW. The amounts were charged at pre-agreed fixed monthly rates by reference to market prices of similar transactions.
- (xiii) The trademark licence fee was paid to SEH. The amount was charged at pre-agreed rate and in accordance with the terms of the trademark licence agreement.
- (xiv) The office rent and building management expenses of approximately HK\$6,067,000 (2000: HK\$2,643,000) were paid to Paul Y. and the rent expense of approximately HK\$367,000 (2000: HK\$130,000) was paid to SEH. The amounts were charged at pre-agreed fixed monthly rates by reference to market prices of similar transactions.
- (xv) The rental income was received from SEH. The amount was charged at pre-agreed fixed monthly rates by reference to market prices of similar transactions.
- (xvi) The salaries were reimbursed to ITC, SEH and Hanny for the secondment of certain employees to the Group or services provided by employees of ITC, SEH and Hanny for the business of the Group. The amounts represented the actual amounts incurred by ITC, SEH and Hanny on behalf of the Group.
- (xvii) The goods were sold to Hanny, Paul Y., SEH and TFH. The amount was charged at cost plus a percentage mark-up.
- (xviii) The sundry expenses were paid to SEH during the year ended 31st March, 2001 and paid to Paul Y. during the year ended 31st March, 2000. The amounts represented the actual amounts incurred by SEH and Paul Y. on behalf of the Group.
- (xix) The technical consulting services fee was paid to Hanny. The amount represented the actual amount incurred by Hanny on behalf of the Group.
- (xx) The telecommunication expenses were paid to PCCW. The amount was charged at pre-agreed monthly rates by reference to market prices of similar transactions.

In addition to the above, the Group also entered into the following related party transactions:

- (a) During the year ended 31st March, 2001, the Group purchased property and equipment and inventories from PCCW amounting to approximately HK\$2,139,000. During the year ended 31st March, 2000, the Group purchased property and equipment from Paul Y. amounting to approximately HK\$163,000 and paid an amount of HK\$6,899,000 to Hanny for the purchase of computer equipment. The amounts were charged in accordance with terms agreed between both parties and by reference to market prices.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

- (b) During the year ended 31st March, 2001, the Group disposed of property and equipment to SEH at a consideration of approximately HK\$355,000. The amount was charged in accordance with terms agreed between both parties and by reference to market prices.
- (c) On 23rd February, 2000, the Group entered into an agreement with Dr. Chan Kong Sang, Jackie, a non-executive director, pursuant to which Dr. Chan granted to the Group the rights to use, operate and manage Dr. Chan's official website and to use certain promotional materials. The Group incurred approximately HK\$390,000 under this agreement during the year.
- (d) On 17th March, 2000, the Group entered into an agreement with Bob whereby Bob granted to the Group the exclusive licence to distribute, exploit and exhibit specified films owned by Bob on the internet or any other media of a similar nature for a term of three years at a consideration of not less than HK\$9,000,000. During the year, the Group paid HK\$5,000,000 to Bob in respect of the licence right; the remaining balance of HK\$4,000,000 was included in payables to related parties at 31st March, 2001.
- (e) On 1st April, 2000, the Group entered into an agreement to purchase the entire issued share capital of and the shareholders' loans to Real Pleasure Limited at a consideration of approximately HK\$3,695,000 and HK\$3,993,000 respectively. SEH and Hanny had a 50% and 30% beneficial interest, respectively, in this Company.
- (f) Under a management agreement dated 19th November, 1999, the Group had appointed Star East Information Technology Management Co. Limited ("SEITM"), a shareholder of the Company and equally owned by PCCW and SEH, to manage the day-to-day affairs and business of the Group and to provide the Group at cost with management services including, among others, general administrative and accounting services and repairs and maintenance services. No such services had been provided by SEITM to the Group and the management agreement was terminated in May 2000.
- (g) During the year ended 31st March, 2000, Perpetual Gold Company Limited ("Perpetual Gold"), a former wholly-owned subsidiary of the Group, acquired a 51% interest in The Saint News Limited, a company in which a former director of the Company has a beneficial interest, for a consideration of HK\$2,550,000. During the same year, the Group sold its entire interests in Perpetual Gold and The Saint News Limited to SEH for the same amount. The results of The Saint News Limited were excluded from the Group's consolidated financial statements for the year ended 31st March, 2000 because at the time of acquisition the Group had intended such ownership in The Saint News Limited to be temporary.
- (h) The Group entered into an agreement with The Saint News Limited on 17th March, 2000. Pursuant to the agreement, The Saint News Limited would provide content on horse racing to the Group on the internet. The Group did not incur any expenses in respect of this agreement for both years.
- (i) The Group also entered into contracts with Mr. Tam Wing Lun, Alan and Mr. Chan Pak Cheung, Natalis, both executive directors. Under the contracts, the Group would set up official website for Mr. Tam and Mr. Chan who would participate in the activities conducted for their respective official website. No amount was paid in respect of these contracts during both years.



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 24. RECONCILIATION OF NET LOSS FOR THE YEAR TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Net loss for the year	(174,263)	(79,815)
Share of results of an associate	382	-
Amortisation of intangible assets	3,000	125
Depreciation	22,243	3,995
Finance lease charges	138	107
Interest expense	6,730	56
Interest income	(4,634)	(1,063)
Loss on disposal of property and equipment	1,996	-
Loss on disposal of subsidiaries	2,148	-
Impairment loss recognised on network and computer equipment	6,361	-
Increase in inventories	(2,361)	-
Increase in accounts receivable	(3,621)	(3,142)
Decrease (increase) in prepaid expenses and other current assets	5,819	(10,170)
Decrease (increase) in receivables from related parties	33	(5,385)
(Decrease) increase in accounts payable and other liabilities	(18,068)	29,795
Decrease in payable to an associate	(75)	-
(Decrease) increase in payables to related parties	(3,520)	18,795
	<u>(157,692)</u>	<u>(46,702)</u>
Net cash outflow from operating activities		

### 25. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED:		
Property and equipment	3,859	-
Inventories	217	-
Accounts receivable	4,705	-
Bank balances and cash	2,925	-
Accounts payable	(14,214)	-
	<u>(2,508)</u>	<u>-</u>
Goodwill	12,948	-
	<u>10,440</u>	<u>-</u>
SATISFIED BY:		
Cash	<u>10,440</u>	<u>-</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 25. ACQUISITION OF SUBSIDIARIES (continued)

Analysis of net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(10,440)	-
Bank balances and cash acquired	<u>2,925</u>	<u>-</u>
	<u>(7,515)</u>	<u>-</u>

The subsidiaries acquired during the year contributed HK\$3,032,000 (2000: HK\$Nil) to the Group's turnover, HK\$8,913,000 (2000: HK\$Nil) to the Group's loss from operations, HK\$3,582,000 (2000: HK\$Nil) to the Group's net operating cash outflows and raised HK\$1,040,000 (2000: HK\$Nil) for investing activities.

### 26. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS DISPOSED OF:		
Property and equipment	2,043	-
Bank balances and cash	1	-
Accounts payable	<u>(1)</u>	<u>-</u>
	2,043	-
Attributable goodwill	6,605	-
Loss on disposal	<u>(2,148)</u>	<u>-</u>
	<u>6,500</u>	<u>-</u>
SATISFIED BY:		
Investment in securities	<u>6,500</u>	<u>-</u>

The outflow of cash and cash equivalents in connection with the disposal of subsidiaries represents the bank balances and cash of HK\$1,000.

The subsidiaries disposed of during the year contributed HK\$723,000 (2000: HK\$Nil) to the Group's turnover, HK\$2,789,000 (2000: HK\$Nil) to the Group's loss from operations, HK\$729,000 (2000: HK\$Nil) to the Group's net operating cash outflows, and raised HK\$656,000 (2000: HK\$Nil) for investing activities.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>HK\$'000</i>	Payables to shareholders <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>
At 1st April, 1999	1	-	-
Issue of shares	165,449	-	-
Share issue expenses	(13,535)	-	-
Inception of finance leases	-	-	2,216
Repayment during the year	-	-	(604)
	<hr/>	<hr/>	<hr/>
At 31st March, 2000 and 1st April, 2000	151,915	-	1,612
Issue of shares as a result of the Share Offer	200,600	-	-
Issue of shares as a result of Group Reorganisation	30,000	-	-
Issue of shares on exercise of over-allotment option	30,090	-	-
Share issue expenses	(34,543)	-	-
Eliminated on Group Reorganisation	(151,915)	-	-
Borrowings raised	-	61,500	-
Accrued interest	-	6,730	-
Repayment during the year	-	-	(698)
	<hr/>	<hr/>	<hr/>
At 31st March, 2001	226,147	68,230	914

### 28. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March, 2001, the Group entered into the following significant non-cash transactions:

- (i) The Group acquired a 5% equity interest in Panorama at a consideration of HK\$10,000,000, of which HK\$6,500,000 was satisfied by the disposal of the Company's entire interest in certain subsidiaries to Panorama and the remaining balance of HK\$3,500,000 was set off against the trade receivable from Panorama.
- (ii) Included in payable to an associate is an amount of HK\$400,000 which represents the investment cost payable to the associate.
- (iii) In respect of the intangible assets of HK\$9,000,000 acquired during the year ended 31st March, 2000, HK\$5,000,000 was paid during the year ended 31st March, 2001, the remaining balance of HK\$4,000,000 was included in payables to related parties at 31st March, 2001.

During the year ended 31st March, 2000, part of the proceeds from issue of new shares amounting to HK\$10,161,000 was netted off with the payables to certain shareholders.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 29. POTENTIAL DEFERRED TAXATION

At 31st March, 2001, the major components of potential deferred tax asset (liability) are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses available to set off future profits	45,894	11,238
Excess of tax allowances over depreciation	(8,305)	(3,078)
	<u>37,589</u>	<u>8,160</u>

The amounts of potential deferred tax credit (charge) for the year are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses	34,656	11,206
Excess of tax allowances over depreciation	(5,227)	(3,078)
	<u>29,429</u>	<u>8,128</u>

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

The Company did not have any significant potential deferred taxation as at the balance sheet date or during both years.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 30. OPERATING LEASE COMMITMENTS

At 31st March, 2001, the Group had outstanding annual commitments payable in the following year under non-cancellable operating leases as follows:

	Office premises		Internet leased lines	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:				
Within one year	2,298	499	2,059	1,370
In the second to fifth year inclusive	2,279	5,811	2,093	-
	<u>4,577</u>	<u>6,310</u>	<u>4,152</u>	<u>1,370</u>

The Company did not have any significant operating lease commitments as at the balance sheet date.

### 31. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had capital commitment of HK\$735,000 (2000: HK\$24,358,000) in respect of acquisition of property and equipment contracted for but not provided in the financial statements.

In addition, the Group is committed to pay SEH an annual licence fee of HK\$800,000 in the coming four years in respect of the right to use the trademark of "Star East".

The Company did not have any significant commitments as at the balance sheet date.

### 32. RETIREMENT BENEFIT SCHEME

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1st December, 2000, the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employees) as calculated under the MPF legislation. Prior to 1st December, 2000, the Group did not have any pension or retirement benefit scheme in place.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2001 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company %	Principal activities
Designate Success Limited	British Virgin Islands	Shares US\$100	100	Investment holding
Hottest Choice Limited	British Virgin Islands	Shares US\$100	100	Investment holding
LEONSTAREASTnet.com Limited	Hong Kong	Ordinary shares HK\$2	100	Operation of website
LEONSTAREASTnet Multimedia Limited	Hong Kong	Ordinary shares HK\$2	100	Provision of media agency services
NA.StarEastNet.com Corporation (formerly known as Star East Information Technology Corporation)	Canada	1 common share with no par value	100	Investment holding
NA.StarEastNet Multimedia Limited (formerly known as Star East Multimedia Limited)	Canada	100 common shares with no par value	100	Provision of media agency services and operation of website
Star East Information Technology Corporation (Taiwan)	Taiwan	Shares NTD1,000,000	100	Operation of website
Star East IT Management Limited	Hong Kong	Ordinary shares HK\$2	100	Corporate management services and investment holding
Star East IT Production Limited	Hong Kong	Ordinary shares HK\$2	100	Production of multimedia contents

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

<b>Name of company</b>	<b>Place of incorporation/ operation</b>	<b>Issued and fully paid share capital/ registered capital</b>	<b>Proportion of nominal value of issued capital held by the Company %</b>	<b>Principal activities</b>
Star East Multimedia Limited	Hong Kong	Ordinary shares HK\$2	100	Provision of media agency services and operation of website
Star East On-Line Limited	Hong Kong	Ordinary shares HK\$2	100	Provision of website development services for artistes
Star East Web Stars Limited	British Virgin Islands	Shares US\$100	100	Investment holding
Star East Website Limited	Hong Kong	Ordinary shares HK\$2	100	Holding of websites and domain names
STAREASTnet (BVI) Limited	British Virgin Islands	Shares US\$1,000	100	Investment holding
Stareastnet Holdings Pte Ltd	Singapore	Shares SGD2	100	Investment holding
Stareastnet Management Pte Ltd	Singapore	Shares SGD2	100	Provision of corporate management services
Stareastnet Multimedia Pte Ltd	Singapore	Shares SGD2	100	Provision of media agency services and operation of website
STAREASTnet.com Management Limited	Hong Kong	Ordinary shares HK\$2	100	Provision of corporate management services
STAREASTnet.com Services Limited	Hong Kong	Ordinary shares HK\$2	100	Provision of secretarial services



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company %	Principal activities
StarNet Generation Limited (formerly known as Grand Planet Limited)	Hong Kong	Ordinary shares HK\$2	100	Provision of information technology consulting services
Starnet Technology Limited	British Virgin Islands	Shares US\$100	100	Investment holding
Wonderweb Limited	British Virgin Islands	Shares US\$100	100	Investment holding
北京東方魅力資訊科技 有限公司	PRC	Registered capital RMB10,000,000	90	Operation of website
深圳萬能信息技術有限公司	PRC	Registered capital RMB2,161,530	90	Provision of information technology consulting services

With the exception of STAREASTnet (BVI) Limited, all the subsidiaries were indirectly held by the Company.

The above table only lists those subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year 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.

## FINANCIAL SUMMARY

For the year ended 31st March, 2001

### RESULTS

	Period from 18.2.1999 to 31.3.1999 <i>HK\$'000</i>	Year ended 31.3.2000 <i>HK\$'000</i>	Year ended 31.3.2001 <i>HK\$'000</i>
TURNOVER	-	10,375	48,383
COST OF SALES	-	(23,505)	(89,201)
GROSS LOSS	-	(13,130)	(40,818)
ADVERTISING AND PROMOTION EXPENSES	-	(20,073)	(37,597)
ADMINISTRATIVE EXPENSES	(197)	(47,512)	(81,191)
LOSS FROM OPERATIONS	(197)	(80,715)	(159,606)
COST OF STREAMLINING OPERATIONS	-	-	(12,814)
INTEREST INCOME	-	1,063	4,634
OTHER REVENUE	-	-	773
FINANCE COSTS	-	(163)	(6,868)
SHARE OF RESULTS OF AN ASSOCIATE	-	-	(382)
NET LOSS FOR THE PERIOD/YEAR	(197)	(79,815)	(174,263)

### ASSETS AND LIABILITIES

	At 31st March, 1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TOTAL ASSETS	1	121,141	189,644
TOTAL LIABILITIES	197	49,238	104,720
	(196)	71,903	84,924

## Financial Summary

*For the year ended 31st March, 2001*

*Notes:*

1. The Company was incorporated in the Cayman Islands on 31st January, 2000 and became the holding company of the Group on 18th May, 2000 as a result of the Group Reorganisation.
2. The results for the period from 18th February, 1999 to 31st March, 1999 and for each of the two years ended 31st March, 2000 and 2001 and the assets and liabilities as at 31st March, 1999, 2000 and 2001 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence since 18th February, 1999.



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of STAREASTnet.com Corporation (the "Company") will be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 26th July, 2001 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st March, 2001.
2. To re-elect retiring directors and to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

A. **"THAT:**

- (i) subject to paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or options, warrants, or similar rights to subscribe for any shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make and grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined) or, (b) the exercise of rights of conversion under any securities which are convertible into shares of the Company or, (c) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to the directors, employees and/or contracted celebrities of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, shares of the Company, shall not in aggregate exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (iv) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;



## Notice of Annual General Meeting

- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
- (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights issue" means the allotment or issue of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the directors of the Company made to holders of shares of the Company or any class thereof whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

### B. "THAT:

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its owned issued shares of HK\$0.10 each in the capital of the Company and to make offers, agreements and options which might require the exercise of such powers, subject to and in accordance with all the applicable laws and Articles of Association of the Company be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (i) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
- (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."



## Notice of Annual General Meeting

C. **"THAT** conditional upon the resolution numbered 4B in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional securities pursuant to resolution numbered 4A in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to the said resolution numbered 4B."

5. As special business, to consider and, if thought fit, pass the following resolution with or without amendments as a special resolution:

**"THAT** the Articles of Association of the Company be amended by deleting the existing Article 75 in its entirety and substituting the following new Article 75:

'For all purposes, the quorum for a general meeting shall be two (2) members present in person or by proxy provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy. No business (except the appointment of a Chairman) shall be transacted at any general meeting unless the requisite quorum shall be present at the commencement of the business.'

By Order of the Board  
**Wong Lai Kin, Elsa**  
*Company Secretary*

Hong Kong, 29th June, 2001

*Principal Place of Business:*

Units 2509-11  
Paul Y. Centre  
51 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

*Registered Office:*

Ugland House  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Notes:*

1. In order to qualify for attending the forthcoming annual general meeting of the Company, all shares transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Central Registration Hong Kong Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting.
2. Every member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.



## Notice of Annual General Meeting

3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's principal place of business at Units 2509-11, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting or any adjournment thereof. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution.
4. An Explanatory Statement containing further details regarding resolution numbered 4B above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the 2001 Annual Report.
5. In the case of a poll taken subsequently to the date of the meeting or adjourned meeting, the form of proxy must be deposited at the Company's principal place of business at Units 2509-11, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than forty-eight hours before the time fixed for the taking of the poll.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.