

Notes to the Financial Statements

for the Year Ended 31 December 2000

1. General

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

The Company is an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 42 and 43 respectively.

2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, land and buildings, and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 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 within the Group are eliminated on consolidation.

Goodwill and capital reserve

Goodwill or capital reserve arising on the acquisition of a subsidiary or an associate represents, respectively, the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary or associate at the date of acquisition. Goodwill or capital reserve is written off or credited directly to reserves in the year of acquisition.

On disposal of a subsidiary or an associate, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves at the time of acquisition is included in the determination of the profit or loss on disposal.

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers and the net proceeds from sale of listed trading investments during the year.

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2. Significant Accounting Policies (continued)

Revenue recognition

Trading of securities are recognised when the relevant transaction is executed.

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the lease terms.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged as expense for the period. Where a revaluation decrease has previously been charged to as expense and a revaluation increase subsequently arises, this increase is credited as income to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is included in profit or loss for the period.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged as expenses 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 asset, the expenditure is capitalised as an additional cost of the asset.

2. Significant Accounting Policies (continued)

Property, plant and equipment - continued

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve. A decrease in net carrying amount arising on revaluation of land and buildings is charged as expenses to the extent that it exceeds the surplus, if any, held in revaluation reserve relating to previous revaluation of that particular property. On the subsequent sale of land and buildings, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in net profit or loss for the period.

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.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining lease terms
Buildings	Over the shorter of the lease terms or 30-50 years
Computer and electronic equipment	20%
Furniture and fixtures	20% - 50%
Motor vehicles	20% - 50%

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 subsidiaries that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

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for the Year Ended 31 December 2000

2. Significant Accounting Policies (continued)

Associates

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

The consolidated results 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.

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

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities held for non-trading purposes, unrealised gains and losses are dealt with in equity, until the security is realised or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories, representing trade merchandise, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, and where applicable, 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 all estimated costs of completion and the estimated costs necessary to make the sale.

2. Significant Accounting Policies (continued)

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 using 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.

Operating leases

Rentals payable and receivable under operating leases are charged as expenses and credited as income on a straight line basis over the terms of the relevant lease.

Retirement benefits scheme

The pension costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the period.

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

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 advance.

Notes to the Financial Statements

for the Year Ended 31 December 2000

3. Turnover and Contribution to Profit from Operations

An analysis of the Group's turnover and contribution to profit from operations by principal activity for the year are as follows:

	Turnover		Contribution to profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Continuing operations				
Mobile phone distribution	236,346	220,012	1,959	(639)
Telecommunication products	10,063	1,290	(18,145)	(906)
Trading of securities	2,196,020	234,491	(256,643)	9,048
Others	—	6,307	—	(8,138)
	2,442,429	462,100	(272,829)	(635)
Net gains on investments			1,622,602	355,596
Gain on disposal of an associate			7,800	—
Provision in respect of distribution network development costs in the Mainland China			(9,189)	(95,133)
			1,348,384	259,828
Discontinued operations				
Paging services	—	80,329	—	(103,162)
Customer premises equipment	—	53,842	—	9,286
Others	—	14,552	—	6,505
	—	148,723	—	(87,371)
Cellular mobile telecommunication network			—	36,258
Gain on disposal of discontinued operations, net			—	95,680
			—	44,567
Total	2,442,429	610,823	1,348,384	304,395

Over 90% of the Group's turnover and related contribution to profit from operations are derived from activities in Hong Kong, Special Administrative Region of the People's Republic of China ("Hong Kong"), and the rest of the operations are carried out in the Mainland China.

Notes to the Financial Statements

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4. Net Gains on Investments

	2000 HK\$'000	1999 HK\$'000
Gain on realisation of non-trading listed investments, after taking into account of release of asset revaluation reserve of HK\$3,306,391,000 (note 27)	2,870,891	355,596
Net realised loss on equity linked notes	(359,103)	—
Net unrealised loss on trading investments	(791,730)	—
Impairment loss on non-trading investments	(97,456)	—
	1,622,602	355,596

5. Discontinued Operations

In the prior year, the Group disposed of certain subsidiaries, whose principal activities comprised the development and operation of a cellular mobile telecommunication network, and the marketing, and provision of technical support for customer premises equipment. The Group also disposed of its paging business. These operations were accounted for until the dates of their disposals, at which time the assets and liabilities of the subsidiaries and the business were transferred to the gain on disposal of the discontinued operations, which was calculated as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Net gain on disposal/deemed disposal of interests in subsidiaries, a subsidiary not consolidated and associates (note a)	—	371,734
Less: goodwill previously written off against reserves	—	(296,901)
exchange reserve realised	—	(1,945)
	—	72,888
Gain on disposal of business (note b)	—	22,792
	—	95,680

Notes:

- (a) In respect of the year ended 31 December 1999, the net gain on disposal/deemed disposal of interests in subsidiaries and a subsidiary not consolidated comprised (i) the net gain on dilution and partial disposal of the Group's interest in Tricom Holdings Limited ("Tricom", whose name was changed to Pacific Century CyberWorks Limited ("PCCW")) of HK\$220,111,000; (ii) the loss on disposal of the Group's interest in Star Digitel Limited ("SDL") of HK\$150,437,000; and (iii) the gain on the disposals of the interests in other subsidiaries of HK\$3,214,000.
- (b) The amount represented the gain on the disposal of the Group's business in the provision of paging services to China Motion Telecom (H.K.) Limited at a consideration of HK\$34,600,000.

Notes to the Financial Statements

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6. Other Revenue

	2000 HK\$'000	1999 HK\$'000
Dividend income from listed investments	26,739	—
Forfeited pension scheme contribution	542	10,161
Gross rental income from investment properties	1,653	3,479
Interest income	25,926	26,004
Write back of the provision for litigation	—	36,258
Others	503	11,372
	55,363	87,274

7. Profit from Operations

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	995	1,506
Cost of inventories recognised as expenses	219,660	220,262
Cost of services rendered	—	80,540
Redundancy and severance payments	206	16,431
Deficit arising on revaluation of investment properties	1,350	2,650
Deficit on revaluation of land and buildings	2,395	19,897
Depreciation and amortisation	3,491	17,322
Loss on disposal of property, plant and equipment	706	2,709
Operating lease rentals in respect of rented premises	4,980	19,441
Provision for diminution in values of interests in associates	—	9,057
Provision for diminution in value of property, plant and equipment	—	16,321
Staff costs, inclusive of directors' emoluments	13,525	43,345

8. Finance Costs

	2000 HK\$'000	1999 HK\$'000
Interest on:		
- bank and other borrowings wholly repayable within five years	13,723	5,273
- finance leases	—	6
	13,723	5,279

9. Directors' Emoluments and Highest Paid Employees

Directors' emoluments

The directors' emoluments are analysed as follows:

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	100	285
	100	285
Other emoluments to executive directors:		
Salaries and other benefits	193	1,162
Performance related bonus	—	6,811
Retirement benefit scheme contribution	—	—
Total directors' emoluments	293	8,258

The emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	5	10
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$4,500,001 to HK\$5,000,000	—	1

Highest paid employees

During the current year, the five highest paid employees of the Group do not include any directors. In 1999, the five highest paid employees of the Group included three directors, details of whose emoluments are set out above. The emoluments of the five highest paid employees (1999: two employees) are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	3,054	3,235
Performance related bonus	—	100
Retirement benefit scheme contribution	80	154
	3,134	3,489

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9. Directors' Emoluments and Highest Paid Employees (continued)

The emoluments of the five (1999: two) highest paid employees were within the following bands:

	2000 Number of employees	1999 Number of employees
Nil to HK\$1,000,000	5	1
HK\$2,500,001 to HK\$3,000,000	—	1

10. Tax Credit (Charge)

	2000 HK\$'000	1999 HK\$'000
The credit (charge) comprises:		
Hong Kong Profits Tax		
Current year	—	(2,615)
Overprovision in prior years	2,128	472
	2,128	(2,143)
Tax in elsewhere	—	(436)
Share of taxation of an associate	33	—
	2,161	(2,579)

No provision for Hong Kong Profits Tax has been made in the financial statements, as the Group has no assessable profit for the current year.

Hong Kong Profits Tax was calculated at 16% on the estimated assessable profits in 1999.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates in 1999.

11. Profit for the Year

Of the Group's profit for the year of HK\$1,332,818,000 (1999: HK\$260,381,000), a profit of HK\$53,136,000 (1999: HK\$396,141,000) has been dealt with in the financial statements of the Company.

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12. Dividends

	2000 HK\$'000	1999 HK\$'000
Proposed final of 0.5 HK cents (1999: nil) per ordinary share	46,432	—
Special interim of 2 HK cents per ordinary share	—	181,854
	46,432	181,854

The special interim dividend in 1999 had been adjusted for the one to ten shares subdivision on 30 July 1999.

The final dividend of 0.5 HK cents (1999: nil) per ordinary share has been proposed by the directors and is subject to approval by shareholders in general meeting.

13. Earnings Per Share

The calculation of basic and diluted earnings per share is based on the following data:

	2000 HK\$'000	1999 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	1,332,818	260,381
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	9,284,793,767	9,114,936,517
Effect of dilutive potential shares:		
Options	855,804	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	9,285,649,571	

Diluted earnings per share for the year ended 31 December 1999 had not been presented as no dilutive potential ordinary shares were outstanding.

14. Investment Properties

	THE GROUP 2000 HK\$'000
At 1 January 2000	16,750
Deficit arising on revaluation	(1,350)
At 31 December 2000	15,400

The Group's investment properties are situated in Hong Kong and are held under medium term leases. They were revalued at 31 December 2000 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, at HK\$15,400,000 on an open market, existing use basis. The resulting deficit arising on the revaluation of HK\$1,350,000 (1999: HK\$2,650,000) has been charged to the consolidated income statement.

As at 31 December 1999, certain of the Group's investment properties with an aggregate carrying value of approximately HK\$14,500,000 were pledged to secure general banking facilities granted to the Group. This charge had been released during the year.

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15. Property, Plant and Equipment

	Leasehold land and buildings HK\$'000	Computer and electronic equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION:					
At 1 January 2000	34,650	5,492	8,159	745	49,046
Additions	—	2,327	4,074	1,022	7,423
Disposals	—	(2,073)	(4,151)	(145)	(6,369)
Deficit arising on revaluation	(2,750)	—	—	—	(2,750)
At 31 December 2000	31,900	5,746	8,082	1,622	47,350
COMPRISING:					
At cost	—	5,746	8,082	1,622	15,450
At valuation - 2000	31,900	—	—	—	31,900
	31,900	5,746	8,082	1,622	47,350
DEPRECIATION AND AMORTISATION:					
At 1 January 2000	—	2,160	5,376	745	8,281
Provided for the year	355	2,112	779	245	3,491
Eliminated on disposals	—	(2,001)	(3,369)	(145)	(5,515)
Eliminated on valuation	(355)	—	—	—	(355)
At 31 December 2000	—	2,271	2,786	845	5,902
NET BOOK VALUES:					
At 31 December 2000	31,900	3,475	5,296	777	41,448
At 31 December 1999	34,650	3,332	2,783	—	40,765

The land and buildings of the Group are analysed as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Properties situated in Hong Kong, held under medium term leases	8,100	8,750
Properties situated in the Mainland China, held under:		
- long leases	3,100	3,700
- medium term leases	20,700	22,200
	31,900	34,650

15. Property, Plant and Equipment (continued)

All the land and buildings of the Group were revalued at 31 December 2000 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on an open market value basis. The resulting deficit arising on the revaluation of HK\$2,395,000 (1999: HK\$19,897,000) has been charged to the consolidated income statement.

Had all the land and buildings of the Group been carried at cost less accumulated depreciation and amortisation, the carrying values of these properties would have been stated at HK\$51,423,000 (1999: HK\$52,834,000).

16. Interests in Subsidiaries

	THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	32,168	32,168
Amounts due from subsidiaries	3,428,946	1,207,487
	3,461,114	1,239,655
Less: Impairment loss recognised	(63,524)	(119,140)
	3,397,590	1,120,515

Particulars of the principal subsidiaries as at 31 December 2000 are set out in note 42.

In the opinion of the directors, the amounts due from subsidiaries will not be repaid within twelve months from the balance sheet date. Accordingly, it is classified as non-current.

17. Interests in Associates

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	73,056	9,507
Less: Impairment loss recognised	(7,812)	(9,507)
	65,244	—

Particulars of the principal associate as at 31 December 2000 are set out in note 43.

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18. Investments in Securities

THE GROUP	Trading investments		Non-trading investments		Total	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities						
- listed in Hong Kong	1,395,154	—	430,447	3,620,000	1,825,601	3,620,000
- unlisted	492,175	—	6,000	—	498,175	—
	1,887,329	—	436,447	3,620,000	2,323,776	3,620,000
Carrying amount analysed for reporting purposes as						
- Non-current	—	—	339,638	3,620,000	339,638	3,620,000
- Current	1,887,329	—	96,809	—	1,984,138	—
	1,887,329	—	436,447	3,620,000	2,323,776	3,620,000
Market value of listed securities	1,395,154	—	430,447	3,620,000	1,825,601	3,620,000

As at 31 December 2000, included in the equity securities shown above, the Group has interests in the following companies, the details of which are disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Group
Sun Hung Kai & Co. Limited	Hong Kong	Ordinary	19.3%
PCCW	Hong Kong	Ordinary	0.67%

19. Inventories

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Inventories held for resale	8,966	9,685

At 31 December 1999, inventories of HK\$119,000 were carried at net realisable value.

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20. Debtors, Deposits and Prepayments

The Group has a policy of allowing an average credit period of 30-90 days to its trade customers.

An aged analysis of trade debtors is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within 90 days	5,688	2,516
91 – 180 days	41	237
181 – 360 days	—	198
Over 360 days	—	1,108
	5,729	4,059
Other debtors, deposits and prepayments	23,007	47,844
	28,736	51,903

21. Creditors and Accrued Charges

An aged analysis of trade creditors is as follow:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within 90 days	999	7,035
91 – 180 days	121	6,235
181 – 360 days	3,064	269
Over 360 days	3,849	3,858
	8,033	17,397
Other creditors and accrued charges	157,989	141,093
	166,022	158,490

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22. Bank Borrowings

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Bank borrowings comprise:		
Short term bank loan - secured	265,519	679
Bank overdrafts	—	18
	265,519	697

23. Amounts Due to Subsidiaries

The amounts are unsecured, interest free and have no fixed terms of repayment. Repayment of the amounts will not be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

24. Share Capital

	Number of shares		Value	
	2000	1999	2000 HK\$'000	1999 HK\$'000
Ordinary shares of HK\$0.01 (before 30 July 1999: HK\$0.1) each				
Authorised:				
At beginning of the year	15,000,000,000	1,500,000,000	150,000	150,000
Subdivision of shares (note c)	—	13,500,000,000	—	—
Increase during the year	15,000,000,000	—	150,000	—
At end of the year	30,000,000,000	15,000,000,000	300,000	150,000
Issued and fully paid:				
At beginning of the year	9,279,190,490	910,654,049	92,792	91,065
Shares repurchased (note a)	—	(1,310,000)	—	(131)
Share options exercised (note b)	—	1,500,000	—	150
	9,279,190,490	910,844,049	92,792	91,084
Subdivision of shares (note c)	—	8,197,596,441	—	—
Share options exercised (note d)	7,250,000	170,750,000	72	1,708
Warrants exercised (note e)	21,250	—	1	—
At end of the year	9,286,461,740	9,279,190,490	92,865	92,792

24. Share Capital (continued)

Notes:

- (a) In January 1999, the Company repurchased its own shares through the Stock Exchange totalling 1,310,000 shares for an aggregate consideration of HK\$649,000. The highest and the lowest prices per share paid by the Company in the purchase were HK\$0.55 and HK\$0.40, respectively. The directors considered that, as the Company's shares were traded at a discount to the expected net asset value per share, the purchases would be beneficial to the Company.

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against the share premium account.

- (b) On 28 July 1999, the subscription rights attaching to 1,500,000 share options were exercised at the subscription price of HK\$1.29 per share.
- (c) Pursuant to an ordinary resolution passed on 29 July 1999, the issued and unissued share capital of the Company were subdivided from the one share of HK\$0.10 each into the ten shares of HK\$0.01 each with effect from 30 July 1999.
- (d) Subsequent to the subdivision of shares, share options were exercised to subscribe for 68,750,000, 52,000,000 and 50,000,000 ordinary shares of the Company at exercise prices of HK\$0.240, HK\$0.129 and HK\$0.133 per share, respectively.

During the year, share options were exercised to subscribe for 4,250,000 and 3,000,000 ordinary shares of the Company at an exercise price of HK\$0.240 and HK\$0.129 per share, respectively.

- (e) During the year, warrants were exercised to subscribe for 21,250 ordinary shares of the Company at an exercise price of HK\$0.30 per share.

25. Warrants

During the year, 1,856,688,098 warrants were issued at HK\$0.05 on the basis of one warrant for every five ordinary shares held on 15 May 2000. Each warrant entitles the holder to subscribe in cash at a price of HK\$0.30 each, subject to adjustment, for one ordinary share in the Company, at any time from the date of issue up to 6 June 2003 (both days inclusive).

26. Share Option Scheme

Pursuant to the Company's share option scheme adopted on 10 July 1991, the board of directors of the Company may, at its discretion, grant options to eligible employees, including directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price which is 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of granting the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The options previously granted were exercisable during the one-year period commencing one year after the date on which the options were accepted. An amendment was passed at a special general meeting of the Company on 2 April 1997 to alter the definition of the option period as up to a maximum of ten years, as may be decided by the board of directors, after the date of acceptance of the options.

Pursuant to an ordinary resolution passed on 29 July 1999, the issued and unissued shares of the Company were subdivided from the one share of HK\$0.10 each into the ten shares of HK\$0.01 each with effect from 30 July 1999. The share options were subdivided in the same manner accordingly.

Notes to the Financial Statements

for the Year Ended 31 December 2000

26. Share Option Scheme (continued)

A summary of the movements in share options granted under the share option scheme during the year is as follows:

Exercisable period	Capacity	Exercise price HK\$	Number of option shares			Balance at 31.12.2000
			Balance at 1.1.2000	Exercised during the year	Cancelled during the year	
20 January 1998 to 19 January 2001	Employee	0.240	6,250,000	(4,250,000)	(2,000,000)	—
2 June 1999 to 1 June 2002	Employee	0.129	3,000,000	(3,000,000)	—	—
			9,250,000	(7,250,000)	(2,000,000)	—

Notes to the Financial Statements

for the Year Ended 31 December 2000

27. Reserves

	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Warrant reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE GROUP								
At 1 January 1999	1,104,926	(264,018)	—	—	1,791	(1,078)	(595,749)	245,872
Currency realignment	—	—	—	—	—	1,672	—	1,672
Premium arising on issue of shares	29,935	—	—	—	—	—	—	29,935
Shares repurchased and cancelled	(518)	—	—	—	131	—	(131)	(518)
Released on disposal/ deemed disposal of subsidiaries/associates/ unconsolidated subsidiary	—	296,901	—	—	—	1,945	—	298,846
Revaluation surplus of non-trading investments	—	—	—	3,471,277	—	—	—	3,471,277
Profit for the year	—	—	—	—	—	—	260,381	260,381
Dividends	—	—	—	—	—	—	(181,854)	(181,854)
At 31 December 1999	1,134,343	32,883	—	3,471,277	1,922	2,539	(517,353)	4,125,611
Net premium arising on issue of warrants	—	—	90,382	—	—	—	—	90,382
Goodwill arising on acquisition of an associate	—	(30,035)	—	—	—	—	—	(30,035)
Goodwill on acquisition of a subsidiary	—	(569)	—	—	—	—	—	(569)
Share of reserve of an associate	—	(668)	—	—	—	70	—	(598)
Premium arising on issue of shares	1,341	—	—	—	—	—	—	1,341
Transfer	1	—	(1)	—	—	—	—	—
Released on realisation of non-trading investments	—	—	—	(3,306,391)	—	—	—	(3,306,391)
Revaluation deficit of non-trading investments	—	—	—	(229,223)	—	—	—	(229,223)
Profit for the year	—	—	—	—	—	—	1,332,818	1,332,818
Dividends	—	—	—	—	—	—	(46,432)	(46,432)
At 31 December 2000	1,135,685	1,611	90,381	(64,337)	1,922	2,609	769,033	1,936,904
Attributable to:								
Company and subsidiaries	1,135,685	2,279	90,381	(64,337)	1,922	2,539	810,983	1,979,452
Associates	—	(668)	—	—	—	70	(41,950)	(42,548)
	1,135,685	1,611	90,381	(64,337)	1,922	2,609	769,033	1,936,904

Notes to the Financial Statements

for the Year Ended 31 December 2000

27. Reserves (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 1999	1,104,926	32,883	1,791	—	(186,384)	953,216
Premium arising on issue of shares	29,935	—	—	—	—	29,935
Shares repurchased and cancelled	(518)	—	131	—	(131)	(518)
Profit for the year	—	—	—	—	396,141	396,141
Dividend	—	—	—	—	(181,854)	(181,854)
At 31 December 1999	1,134,343	32,883	1,922	—	27,772	1,196,920
Net premium arising from issue of warrants	—	—	—	90,382	—	90,382
Premium arising on issue of shares	1,341	—	—	—	—	1,341
Transfer	1	—	—	(1)	—	—
Profit for the year	—	—	—	—	53,136	53,136
Dividends	—	—	—	—	(46,432)	(46,432)
At 31 December 2000	1,135,685	32,883	1,922	90,381	34,476	1,295,347

Notes:

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued at the date on which the group reorganisation became effective, in exchange for the shares of the subsidiaries, and the underlying net assets of the subsidiaries acquired, less distributions subsequently made to the Company.

In addition to retained profits of the Company, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at the balance sheet date were as follows:

	2000 HK\$'000	1999 HK\$'000
Contributed surplus	32,883	32,883
Retained profits	34,476	27,772
	67,359	60,655

28. Deferred Taxation

The unrecognised potential deferred tax credit of the Group for the year is HK\$10,096,000 (1999: charge of HK\$31,124,000), which comprises mainly the tax effect of timing differences arising from tax losses arising/utilised.

As at 31 December 2000, the potential deferred taxation asset not recognised in the financial statements of the Group is HK\$23,614,000 (1999: HK\$13,518,000), which comprises mainly the tax effect of timing differences arising from tax losses available to set off against future assessable profit.

The potential deferred taxation in respect of timing differences has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

The Company did not have any significant unprovided deferred taxation at the balance sheet date or during the year.

29. Reconciliation of Profit before Taxation to Net Cash Outflow from Operating Activities

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	1,333,777	257,344
Dividend income	(26,739)	—
Interest income	(25,926)	(26,004)
Interest expense	13,723	5,279
Net gain on realisation/disposal of investments in securities	(2,870,891)	(365,093)
Gain on disposal of discontinued operations, net	—	(95,680)
Gain on disposal of an associate	(7,800)	—
Depreciation of property, plant and equipment	3,491	17,322
Deficit arising on revaluation of investment properties	1,350	2,650
Deficit arising on revaluation of leasehold land and buildings	2,395	19,897
Loss on disposal of property, plant and equipment	706	2,709
Net realised loss on equity linked notes	359,103	—
Net unrealised loss on trading investments	791,730	—
Impairment loss on non-trading investments	97,456	—
Share of results of unconsolidated subsidiaries	—	11,845
Share of results of associates	884	29,927
Provisions for diminutions in values of property, plant and equipment	—	16,321
Provisions for diminutions in values of interests in associates	—	9,057
Provision in respect of distribution network development costs in Mainland China	9,189	95,133
Decrease (increase) in inventories	719	(1,833)
Decrease in debtors, deposits and prepayments	25,724	76,437
Increase in investments in securities	(3,086,996)	—
Increase (decrease) in creditors and accrued charges	7,405	(157,942)
Increase (decrease) in customers' deposits and receipts in advance	5,134	(21,807)
Net cash outflow from operating activities	(3,365,566)	(124,438)

Notes to the Financial Statements

for the Year Ended 31 December 2000

30. Purchase of a Subsidiary

During the year the Group acquired 100% of the issued share capital of Fortune Focus Holdings Limited for a consideration of HK\$3,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK\$569,000. The loss after taxation of Fortune Focus Holdings Limited included in the consolidated income statement for the year ended 31 December 2000 amounted to HK\$2,907,000.

	2000 HK\$'000	1999 HK\$'000
NET ASSETS ACQUIRED		
Debtors, deposits and prepayments	2,557	—
Bank balances and cash	1	—
Creditor and accrued charges	(127)	—
	2,431	—
Goodwill	569	—
Satisfied by cash	3,000	—
Net cash outflow arising on acquisition:		
Cash consideration	3,000	—
Bank balances and cash	1	—
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	2,999	—

The subsidiary acquired during the year did not make a material contribution to the Group's net operating cash flows and turnover.

Notes to the Financial Statements

for the Year Ended 31 December 2000

31. Disposal of Subsidiaries and Businesses

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	153,155
Interests in associates	—	(1,254)
Other non-current assets	—	10,415
Inventories	—	83,488
Debtors, deposits and prepayments	—	42,998
Bank balances and cash	—	15,775
Creditors and accrued charges	—	(112,282)
Customers' deposits and receipts in advance	—	(19,802)
Taxation	—	(3,274)
Bank borrowings	—	(30,602)
Deferred taxation	—	(1,081)
Minority interests	—	(25,755)
	—	111,781
Release of goodwill reserve	—	239,805
Release of translation reserve	—	1,945
Gain on disposal	—	246,117
	—	599,648
Satisfied by:		
Cash consideration	—	505,845
Other receivable included in current assets	—	2,033
The Group's share of net assets in Tricom	—	91,770
	—	599,648

Analysis of the net inflows of cash and cash equivalents in connection with the disposal of subsidiaries and business is as follows:

	2000 HK\$'000	1999 HK\$'000
Cash consideration received	—	505,845
Bank balances and cash disposed of	—	(15,775)
	—	490,070

The subsidiaries and business disposed of in 1999 contributed HK\$38 million to the Group's net operating cash outflows, paid HK\$2 million in respect of the net returns on investments and servicing of finance, received a tax refund of HK\$8 million, received HK\$11 million for investing activities and received HK\$4 million in respect of financing activities.

The results of the subsidiaries and business disposed of during 1999 contributed HK\$149 million to turnover and a loss of HK\$87 million to the consolidated profit after taxation and before minority interests.

Notes to the Financial Statements

for the Year Ended 31 December 2000

32. Analysis of Changes in Financing During the Year

	Share capital and premium HK\$'000	Bank and other borrowings HK\$'000	Obligations under finance leases HK\$'000	Advances from ultimate holding company HK\$'000	Minority interests HK\$'000	Warrant reserve HK\$'000
Balance at 1 January 1999	1,195,991	78,340	1,037	2,468	31,946	—
Proceeds from issue of shares	31,793	—	—	—	—	—
Repurchase of own shares	(649)	—	—	—	—	—
New loans raised during the year	—	9,347	—	—	—	—
Repayment during the year	—	(56,406)	(1,037)	(2,468)	—	—
Reversal of minority interests due to disposal/dilution of interests in subsidiaries	—	—	—	—	(25,755)	—
Minorities share of losses of subsidiaries	—	—	—	—	(5,616)	—
Reduction in bank borrowings as a result of disposal of interest in a subsidiary	—	(30,602)	—	—	—	—
Balance at 31 December 1999	1,227,135	679	—	—	575	—
Proceeds from issue of shares upon exercise of options	1,407	—	—	—	—	—
Proceeds from issue of shares upon exercise of warrants	7	—	—	—	—	—
Issue of warrants	—	—	—	—	—	90,382
New loan raised during the year	—	1,397,866	—	—	—	—
Repayment during the year	—	(1,140,255)	—	—	—	—
Interest accrued	—	7,229	—	—	—	—
Transfer	1	—	—	—	—	(1)
Minorities share of profit of subsidiaries	—	—	—	—	3,120	—
Balance at 31 December 2000	1,228,550	265,519	—	—	3,695	90,381

33. Analysis of the Balances of Cash and Cash Equivalents

	2000 HK\$'000	1999 HK\$'000
Bank balances and cash	37,010	632,232
Bank overdrafts	—	(18)
	37,010	632,214

34. Major Non-cash Transactions

In prior year, the Group's interest in Tricom was diluted from approximately 74.87% to approximately 4.12% following the completion of certain transactions, which included the placements of existing and new shares, and the then new shares issue for a substantial acquisition of a company from Pacific Century Regional Development Limited and Pacific Century Group Holdings Limited, companies in which Mr. Li Tzar Kai, Richard is the controlling shareholder. This resulted in a dilution gain of HK\$220,111,000.

35. Contingent Liabilities

- (a) The Company has given guarantees to banks in respect of general facilities granted to a subsidiary. The extent of facilities utilised by the subsidiary at 31 December 2000 amounted to approximately HK\$122,612,000 (1999: nil).

In addition, the Company has also provided guarantees to several securities houses in respect of the facilities granted to its subsidiaries.

- (b) In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.
- (c) In 1997, the Company had given a counter-indemnity to a former substantial shareholder and the ex-chairman of Tricom, and Chambord Investment Inc. in respect of certain indemnities given to Tricom at the time of and to facilitate the listing of Tricom's shares on the Stock Exchange. These indemnities related to the use of the Tricom tradename, the infringement of the permitted use of properties, the guarantees granted to Tricom to secure banking facilities and tax liabilities.

In respect of (b) and (c) above, the directors were not able to estimate the financial effect of the indemnities and warranty given.

Notes to the Financial Statements

for the Year Ended 31 December 2000

36. Litigations

- (a) Mr. Wong Yick Man, Francis, the ex-managing director and ex-chief executive officer of the Company, who was removed as a director on 10 January 1997, has claimed against the Company on the basis that he was entitled to be paid salary for the remaining period of his employment agreement, the loss of stock options, and outstanding holiday entitlements. The aggregate amount of the various elements of his claim is approximately HK\$12,000,000 together with interest thereon and legal costs. The Group strongly disputes these claims and has taken legal advice. On 29 March 2000, Mr. Wong filed with the court an application to set the case down for trial. The claims were fixed to be heard in the High Court in October 2000 and was dismissed in November 2000. Mr. Wong Yick Man, Francis further appealed to the High Court and the hearing will be held on 26 July 2001. Full provision of HK\$12,000,000 has been made in the financial statements.
- (b) In November 1998, a writ was issued against the Company's subsidiaries, Hongkong Digital Television Limited ("Digital TV", formerly Star Interactive Television Limited) and Star Telecom Services Limited ("STSL", formerly Hong Kong Star Internet Limited) by nCube, claiming the sum of approximately US\$1,980,000 (equivalent to approximately HK\$15,305,000) plus interest in relation to the alleged purchase of two MediaCube 3000 systems by Digital TV from nCube. The claim of nCube against STSL is on the basis of a chop of STSL on the contract between Digital TV and nCube. STSL has taken legal advice and has been advised that it is very unlikely that STSL would be held liable to the claim of nCube. Digital TV is also opposing the claim of nCube and has taken legal advice.

As advised by its lawyers, Digital TV has reasonable grounds in defending the claim and, accordingly, has not made any provision in the financial statements in connection with the claim. Digital TV filed a defence in this section on 14 December 1998 and nCube has failed to further the action since that date.

- (c) Stellar One Corporation ("Stellar One") served a statutory demand under Section 178 of the Hong Kong Companies Ordinance for the sum of approximately US\$1,152,000 (equivalent to approximately HK\$8,983,000) upon Digital TV in November 1998. Stellar One filed a winding up petition against Digital TV in December 1998 which was vigorously opposed by Digital TV. Digital TV applied for an order for security for the costs against Stellar One. On 4 May 1999, the Court ordered Stellar One to pay HK\$200,000 to the court as security for the costs of Digital TV on or before 7 May 1999. Stellar One failed to pay that amount to the court.

The petition was dismissed in November 1999 and Stellar One is to pay Digital TV its cost of the petition, which amounts to HK\$253,952. Stellar One has indicated that it will proceed to arbitration in Honolulu to recover the alleged amount.

Digital TV took legal advice and was advised that the arbitration proceedings had not commenced as of the date of approval of these financial statements. As advised by its lawyers, Digital TV has reasonable grounds in defending the claims and, accordingly, has not made any provision in the financial statements in connection with the claims.

Save and except for the matters specified above, neither the Company nor any of its subsidiaries and associates is engaged in any litigation or claims of material importance and, so far as the directors of the Company are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

Notes to the Financial Statements

for the Year Ended 31 December 2000

37. Pledge of Assets

At the balance sheet date, the following assets of the Group were pledged to banks to secure short term banking facilities:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Marketable securities	1,425,212	—
Investment properties	—	14,500
Bank deposits	—	10,296

38. Capital Commitments

The Group and the Company have no significant capital commitments at the balance sheet date.

39. Operating Lease Commitments

At the balance sheet date, the Group had commitments to make payment within the following year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Operating leases which expire:		
Within one year	—	1,139
In the second to fifth year inclusive	8,591	—
	8,591	1,139

The Company did not have any significant lease commitments as at 31 December 2000 and 1999.

40. Retirement Benefit Scheme

The Group operates a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustee.

The retirement benefit scheme contributions charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group or will be refunded to the Company upon request.

During the year, the retirement benefits scheme contribution net of forfeited contribution approximately of HK\$493,000 (1999: HK\$417,000) amount to HK\$378,000 (1999: HK\$1,137,000).

In addition to the defined contribution retirement benefit scheme, the Group is required to contribute to Mandatory Provident Fund for certain employees commencing from 1 December 2000.

As at 31 December 2000, there was no forfeited contributions, which arose upon employees leaving the scheme and which were available to reduce the contributions payable by the Group in the future years (1999:HK\$318,000).

Notes to the Financial Statements

for the Year Ended 31 December 2000

4.1. Related Party Transactions

- (a) On 2 June 2000, the Company issued a total of 637,148,000 warrants of the Company to Harbour Fair Overseas Limited and Vigor Online Offshore Limited, both of which are wholly-owned subsidiaries of China Sci-Tech Holdings Limited ("CST"), a substantial shareholder of the Company, at a price of HK\$0.05 per warrant on the basis of one warrant for every five existing shares held. Additionally, Cyber Range Limited, a wholly-owned subsidiary of CST, subscribed 890,292,547 warrants of the Company on the same date pursuant to an underwriting agreement dated 24 March 2000, which was subsequently amended by a supplemental agreement dated 18 April 2000. The total underwriting commission paid to CST was HK\$1,526,000 based on 2.5% of the total issue price of the warrants underwritten by CST.
- (b) In 2000, the Company paid a reimbursement of expenses of HK\$6,000,000 to CST. The reimbursement includes (i) salaries of two directors of the Company, both of them also being the directors of CST; (ii) other staff costs; and (iii) daily operating expenses. The reimbursement is based on the actual costs incurred by CST.
- (c) In 1999, the Group disposed of its entire interests in certain subsidiaries and a subsidiary not consolidated to Mr. Wong Kam Fu ("Mr. Wong"), a former executive director who resigned on 9 July 1999. Details of these transactions with Mr. Wong are set out below:
- (i) Star Telecom Holding Limited ("STHL"), a wholly-owned subsidiary of the Company, entered into a conditional agreement dated 9 July 1999 with Electric World Holdings Limited ("EWHL"), a company being 45% owned by Mr. Wong, to dispose of approximately 71.09% interest in SDL, together with the outstanding shareholder's loans, for a consideration of HK\$97,500,000.

SDL is primarily engaged in the development and construction of cellular mobile telecommunications network and the provision of related technical and support services, and the sale of telecommunications equipment in the Mainland China.

Part of the consideration of HK\$500,000 was settled by cash on signing of the conditional agreement. The balance of HK\$97,000,000 would be settled by two promissory notes issued by EWHL with HK\$48,500,000 each and being respectively due on 9 July 2002 and 9 July 2004. The promissory notes are non-interest bearing. The obligation of EWHL under the said two promissory notes are secured by a share charge in favour of STHL over the said disposal shares of SDL. According to the conditional agreement, EWHL granted to the Group a call option to purchase 50% of the shares of SDL sold at a consideration of HK\$48,500,000 in a five-year period from the date of the conditional agreement. The transaction was completed on 6 September 1999.

As at 31 December 1999, the directors considered that the balance of HK\$97,000,000 due and owing by EWHL in connection with the disposal of SDL may not be recoverable and has been fully provided for. The provision was included in the loss on the disposal of SDL in that year.

4 I. Related Party Transactions (continued)

- (ii) On 9 July 1999, STHL entered into another conditional agreement with Beeapple Holdings Limited, a company wholly-owned by Mr. Wong, to dispose of its entire interest in Star Paging Telecom Technology (Shen Zhen) Co., Ltd. ("Star Shenzhen"), together with the outstanding shareholder's loans, for a consideration of HK\$12,000,000. Star Shenzhen was engaged in the manufacturing and sale of telecommunications products and, through its subsidiaries, held interests in paging networks and operations in several cities in the Mainland China. The transaction was completed on 6 September 1999 and the total amount of consideration was fully settled.
- (iii) On 9 July 1999, STHL entered into another conditional agreement with High Stone Assets Limited, a company wholly-owned by Mr. Wong, to dispose of its entire interest in Cosmos Wealth Investment Limited ("Cosmos"), together with the outstanding shareholder's loans, for a consideration of HK\$2,000,000. Cosmos held commercial and residential properties in Shenzhen, the Mainland China.

The consideration was paid in cash on signing of the conditional agreement. The transaction was completed on 6 September 1999.

- (iv) On 16 June 1999, STHL entered into a sale and purchase agreement with Redbirds Winners Inc., a company wholly-owned by Mr. Wong, to dispose of its entire interest in Star Paging, Inc. ("SPI"), together with the outstanding shareholder's loans, for an aggregate consideration of HK\$3,110,000. SPI held a residential property in Canada.

The consideration was paid in cash at the date of completion. The transaction was completed on 16 June 1999.

- (v) On 4 August 1999, STSL, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Starstruck Group Limited, a company wholly-owned by Mr. Wong, to dispose of its entire interest in Star Internet Financial Information Services Limited ("SIFISL"), together with the outstanding shareholder's loans and the assignment of the rights to use the assets of Star Telecom Limited, another wholly-owned subsidiary of the Company, for an aggregate consideration of HK\$1,000,001. SIFISL was principally engaged in the provision of financial information services.

The consideration was paid in cash at the date of completion. The transaction was completed on 4 August 1999.

- (d) In 1999, the Group provided subordinated shareholder's loans of HK\$127,639,000 and had an accumulated intercompany balance of HK\$254,245,000 due by SDL. The loans were subordinated to loans due by SDL to financial institutions. On disposal of SDL, the loans and the accumulated intercompany balance with the Group were assigned to an associate of Mr. Wong.

The subordinated shareholder's loans bore interest at 1% per month while the intercompany balance was interest-free. There was no interest receivable recorded in respect of the subordinated shareholder's loans which were granted before disposal in 1999.

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42. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Energetic Resources Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Star Paging (BVI) Limited	The British Virgin Islands	Ordinary US\$400	100%	Investment holding
Indirectly held				
Dualiane Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Focus Clear Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Forepower Limited	The British Virgin Islands	Ordinary US\$1	100%	Property investment in Hong Kong
Fortune Focus Holdings Limited	The British Virgin Islands	Ordinary US\$10	100%	Provision of corporate advisory services in Hong Kong
Fulltime Profits Limited	The British Virgin Islands	Ordinary US\$100	55%	Investment holding
Genwo Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Gold Chopsticks Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding

Notes to the Financial Statements

for the Year Ended 31 December 2000

42. Particulars of Principal Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
Golden Tropics Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Honest Opportunity Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in Hong Kong
Kintic Limited	Hong Kong	Ordinary HK\$2	100%	Property investment
Konnac Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Natural Flair Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Rich Investments Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Shanghai Tricom Telecom Equipment Co., Ltd.	Mainland China	Registered US\$4,500,000	51.32%	Sale and distribution of telecommunication equipment and provision for intelligent building system integration services
Sparkling Summer Limited	The British Virgin Islands	Ordinary US\$6,500,000	100%	Securities trading in Hong Kong
Star Telecom Holding Limited	Hong Kong	Ordinary HK\$200 Deferred # HK\$4,000,000	100%	Investment holding
Star Telecom Limited	Hong Kong	Ordinary HK\$3,000,000	100%	Distribution of mobile phones

Notes to the Financial Statements

for the Year Ended 31 December 2000

42. Particulars of Principal Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
Star Telecom Overseas Limited	Hong Kong	Ordinary HK\$200	100%	Investment holding
Star Telecom PCN Limited	Hong Kong	Ordinary HK\$3,000,000	100%	Investment holding
Star Telecom Properties Limited	Hong Kong	Ordinary HK\$200	100%	Investment and property holding
Superior Team Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Taskwell Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Tricom Shanghai Communications Limited	Hong Kong	Ordinary HK\$2	55%	Investment holding
Tricom Tianchi Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Vinka Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Widerich Limited	Hong Kong	Ordinary HK\$2	100%	Property investment

The deferred shares, which are not held by the Group, practically carry no right to any dividend or to receive notice of or to attend or vote at any general meeting of the company or to any distribution in winding up.

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42. Particulars of Principal Subsidiaries (continued)

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

All subsidiaries operate principally in their places of incorporation unless specified otherwise under "Principal activities".

None of the subsidiaries had any loan capital subsisting at 31 December 2000 or at any time during the year.

43. Particulars of Principal Associate

Particulars of the principal associate as at 31 December 2000 are as follows:

Name	Business structure	Place of incorporation/ registration	Percentage of interest attributable to the Group	Principal activities
Millennium Group Limited	Corporate	Hong Kong	21.7%	Securities trading and property holding

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.