

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 1. General

The Company was 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, associate and the jointly controlled entity are set out in notes 39, 40 and 41, respectively.

## 2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

### ***Dividends proposed or declared after the balance sheet date***

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. This change in accounting policy has been applied retrospectively. The effect of this change has been to increase shareholders' funds of the Group and the Company as at 31 December 2000 by HK\$46,432,000.

### ***Goodwill***

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or joint venture.

Goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 2. Adoption of Statements of Standard Accounting Practice (continued)

### Impairment of assets

SSAP 31 "Impairment of assets" is effective for periods beginning on or after 1 January 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets and investment properties. The effect is disclosed in note 11.

### Consolidation

SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" has introduced a new definition of subsidiary, i.e. an enterprise that is controlled by the Group. This has resulted in the consolidation, for the first time, of three additional subsidiaries for the purposes of these financial statements as the Group can exercise power to govern the financial and operating policies of these three additional subsidiaries under agreements. Comparative amounts have been adjusted retrospectively.

### Leases

In the current year, the Group has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease arrangements as set out in note 36 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative figures have been restated in order to achieve a consistent presentation.

### Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "segment reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

### Effect of the adoption of new or revised SSAPs

The effect of the adoption of new or revised SSAPs on the comparative figures is as follows:

For the year ended 31 December 2000

	As	Effect of the adoption of		As
	originally stated HK\$'000	SSAP 32 HK\$'000	SSAP 9 (Revised) HK\$'000	restated HK\$'000
Non-current assets	463,652	6,012	—	469,664
Current assets	2,058,850	61,803	—	2,120,653
Current liabilities	489,038	(23,708)	(46,432)	418,898
Minority interests	3,695	5,536	—	9,231
Net assets	2,029,769	85,987	46,432	2,162,188
Profit for the year	1,332,818	8,944	—	1,341,762

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 2. Adoption of Statements of Standard Accounting Practice (continued)

For the year ended 31 December 1999

	As originally stated HK\$'000	Effect of the adoption of SSAP 32 HK\$'000	As restated HK\$'000
Non-current assets	3,678,537	2,247	3,680,784
Current assets	705,559	62,865	768,424
Current liabilities	165,118	(38,199)	126,919
Minority interests	575	26,268	26,843
Net assets	4,218,403	77,043	4,295,446
Profit for the year	260,381	77,043	337,424

## 3. 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**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### 3. Significant Accounting Policies (continued)

#### **Goodwill (continued)**

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions of subsidiaries, associate or jointly controlled entity after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

#### **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.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 3. Significant Accounting Policies (continued)

### *Investment properties (continued)*

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease 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 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 in respect of investment properties except where the unexpired term, including the renewable period, of the relevant lease is twenty years or less.

### *Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less depreciation, amortisation and any identified impairment losses.

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 revaluation increase of land and buildings is credited to the revaluation reserve except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expenses, in which case the increase is credited to consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of land and buildings is charged as expenses to the extent that it exceeds the increase, if any, held in asset revaluation reserve relating to previous revaluation of that particular property. On the subsequent sale of land and buildings, the attributable revaluation increase 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.

### 3. Significant Accounting Policies (continued)

#### ***Property, plant and equipment (continued)***

Depreciation and amortisation 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***

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### ***Associates***

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 less any identified impairment loss.

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.

#### ***Jointly controlled entities***

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 3. Significant Accounting Policies (continued)

### *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, unrealised gains and losses are dealt with in equity, until the security is disposed of 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 is calculated using the first-in, first-out method.

### *Impairment*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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

### *Derivatives used for trading and investment*

Derivatives used in the Group's trading activities are recorded at fair value, and unrealised gains and losses are reflected in the income statement. The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available or if the liquidation of the Group positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 3. 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 under operating leases are charged as expenses on a straight line basis over the terms of the relevant lease.

### *Retirement benefits scheme*

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

## 4. Turnover

	2001 HK\$'000	2000 HK\$'000
Sale of mobile phones	227,636	427,443
Net proceeds from sale of listed trading investments	2,086,281	2,196,020
Dividend income from listed investments	11,149	26,739
Other communication products	14,400	12,867
	2,339,466	2,663,069



# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 5. Business and Geographical Information

### Business segments

For management purposes, the Group is currently organised into two main operating divisions - mobile phone distribution, and securities trading and investments. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2001

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Revenue</i>				
External sales	227,636	2,097,430	14,400	2,339,466
Others	4,626	—	5,281	9,907
	232,262	2,097,430	19,681	2,349,373
<i>Result</i>				
Segment result	(53,341)	(556,666)	(3,040)	(613,047)
Unallocated other revenue				4,120
Unallocated corporate expenses				(69,097)
Loss from operations				(678,024)
Finance costs				(7,360)
Impairment loss recognised in respect of goodwill	—	(30,035)	—	(30,035)
Shares of results of associates	—	(12,593)	—	(12,593)
Share of result of a jointly controlled entity	—	—	(170)	(170)
Loss on deemed acquisition of additional interest in a subsidiary	—	(4,458)	—	(4,458)
Loss before taxation				(732,640)
Tax credit				2,002
Loss before minority interests				(730,638)
Minority interests				13,384
Loss for the year				(717,254)

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 5. Business and Geographical Information (continued)

For the year ended 31 December 2001 (continued)

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Balance sheet</i>				
<i>Assets</i>				
Segment assets	52,114	1,131,341	57,627	1,241,082
Interests in associates	—	54,379	—	54,379
Interest in a jointly controlled entity	—	—	2,045	2,045
Unallocated corporate assets	—	—	—	216,245
Consolidated total assets				1,513,751
<i>Liabilities</i>				
Segment liabilities	81,798	51,637	21,557	154,992
Unallocated corporate liabilities	—	—	—	35,167
Consolidated total liabilities				190,159

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Unallocated segment HK\$'000	Consolidated HK\$'000
<i>Other information</i>					
Capital expenditure	949	—	2,105	1,563	4,617
Depreciation and amortisation	2,572	—	1,415	358	4,345
Other non-cash expenses	766	30,154	3,656	4,458	39,034
Impairment loss	—	52,886	—	—	52,886

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 5. Business and Geographical Information (continued)

For the year ended 31 December 2000

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Revenue</i>				
External sales	427,443	2,222,759	12,867	2,663,069
Others	9,797	—	2,690	12,487
	437,240	2,222,759	15,557	2,675,556
<i>Result</i>				
Segment result	(31,395)	1,394,681	(6,705)	1,356,581
Unallocated other revenue				28,624
Unallocated corporate expenses				(56,409)
Profit from operations				1,328,796
Finance costs				(13,723)
Gain on disposal of an associate	—	7,800	—	7,800
Shares of results of associates	—	(884)	—	(884)
Profit before taxation				1,321,989
Tax credit				2,161
Profit before minority interests				1,324,150
Minority interests				17,612
Profit for the year				1,341,762
<i>Balance sheet</i>				
<i>Assets</i>				
Segment assets	88,620	2,322,010	75,984	2,486,614
Interests in associates	—	65,244	—	65,244
Unallocated corporate assets				38,459
Consolidated total assets				2,590,317
<i>Liabilities</i>				
Segment liabilities	92,320	276,049	24,543	392,912
Unallocated corporate liabilities				25,986
Consolidated total liabilities				418,898

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 5. Business and Geographical Information (continued)

For the year ended 31 December 2000 (continued)

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Unallocated segment HK\$'000	Consolidated HK\$'000
<i>Other information</i>					
Capital expenditure	10,449	—	228	158	10,835
Depreciation and amortisation	1,318	—	1,660	107	3,085
Other non-cash expenses	—	791,730	3,943	—	795,673
Impairment loss	—	97,456	—	—	97,456

### Geographical segments

The Group's operations are located in Hong Kong and the Mainland China.

The Group's distribution of mobile phones are carried out in Hong Kong and the Mainland China. Securities trading and investments are carried out in Hong Kong.

The following table provides an analysis of the Group's revenue and (loss) profit from operations by geographical market:

	Revenue by geographical market		(Loss) profit from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,166,996	2,460,667	(634,493)	1,367,864
Mainland China	182,377	214,889	(43,531)	(39,068)
	2,349,373	2,675,556	(678,024)	1,328,796

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31.12.2001	At 31.12.2000	Year Ended 31.12.2001	Year Ended 31.12.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,452,684	2,476,487	4,143	6,248
Mainland China	61,067	113,830	474	4,587
	1,513,751	2,590,317	4,617	10,835

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 6. Net (Losses) Gains on Investments

	2001 HK\$'000	2000 HK\$'000
Gain on disposal of other listed investments (2000: after taking into account of release of asset revaluation reserve of HK\$3,306,391,000) (note 27)	5,292	2,870,891
Net realised loss on equity linked notes	(60,815)	(359,103)
Net realised loss on derivatives	(122,312)	—
Net unrealised loss on equity linked notes	—	(89,696)
Net unrealised loss on trading investments	(25,223)	(702,034)
Net unrealised loss on derivatives	(4,931)	—
Impairment loss recognised in respect of other investments	(22,851)	(97,456)
	<b>(230,840)</b>	1,622,602

## 7. Other Revenue

	2001 HK\$'000	2000 HK\$'000
Forfeited pension scheme contribution	—	542
Rental income from properties under operating leases after outgoings of HK\$75,000 (2000: HK\$91,000)	4,828	1,562
Interest income	3,868	25,336
Service income	4,878	9,897
Maintenance income	453	1,128
Others	—	3,188
	<b>14,027</b>	41,653

## 8. (Loss) Profit from Operations

	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration	1,200	943
Cost of inventories recognised as expenses	229,945	403,433
Redundancy and severance payments	—	206
Revaluation decrease of investment properties	2,200	1,350
Revaluation decrease of leasehold land and buildings	713	2,395
Depreciation and amortisation	4,345	3,085
Loss on disposal of property, plant and equipment	1,509	198
Operating lease rentals in respect of rented premises	16,149	12,027
Staff costs, inclusive of directors' emoluments	28,753	22,514

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 9. Finance Costs

The amounts represent interest on bank and other borrowings wholly repayable within five years.

## 10. Directors' Emoluments and Highest Paid Individuals

### Directors' emoluments

The directors' emoluments are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	60	—
Non-executive directors	—	—
Independent non-executive directors	200	100
	260	100
Other emoluments to executive directors:		
Salaries and other benefits	1,578	193
Retirement benefit scheme contribution	—	—
Total directors' emoluments	1,838	293

The emoluments of the directors are within the following bands:

	2001 Number of directors	2000 Number of directors
Nil to HK\$1,000,000	4	5
HK\$1,500,001 to HK\$2,000,000	1	—

There was no compensation for loss of office paid to directors or former directors and no directors waived any emoluments for the year ended 31 December 2001 (2000: nil).

### Highest paid individuals

During the year, the five highest paid individuals included one director (2000: nil), details of which are set out above. The emoluments for the remaining four (2000: five) highest paid individuals of the Group are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	3,365	3,054
Retirement benefit scheme contributions	122	80
	3,487	3,134

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 10. Directors' Emoluments and Highest Paid Individuals (continued)

The emoluments are within the following bands:

	2001 Number of employees	2000 Number of employees
Nil to HK\$1,000,000	3	5
HK\$1,000,001 to HK\$1,500,000	1	—

## 11. Impairment Loss Recognised in Respect of Goodwill

During the year, the directors have assessed the recoverable amount of the goodwill arising from acquisition of an associate in prior year amounting to HK\$30,035,000 and identified that goodwill to be impaired. The Group subscribed the shares in the associate in May 2000, and as announced by the associate on 6 May 2000, the net proceed from the subscription would be used as working capital for its information technology related businesses. However, as revealed in the associate's annual report 2001, the associate has terminated and made provisions for some of these projects. Accordingly, the carrying amount of the goodwill has been charged to the income statement in current year.

## 12. Tax Credit

	2001 HK\$'000	2000 HK\$'000
The (charge) credit comprises:		
Hong Kong Profits Tax		
Current year	(195)	—
Overprovision in prior years	—	2,128
	(195)	2,128
Share of taxation of associates	2,197	33
	2,002	2,161

Hong Kong Profits Tax was calculated at 16% on the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax had been made in the financial statements for the year ended 31 December 2000 as the Group had no assessable profit.

Details of the unprovided deferred taxation are set out in note 28.

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 13. Dividends

	2001 HK\$'000	2000 HK\$'000
Final dividend paid in respect of for the year ended 31 December 2000 of 0.5 HK cents (1999: nil) per ordinary share	46,432	—

The directors do not recommend the payment of a final dividend for the year ended 31 December 2001.

### 14. (Loss) Earnings Per Share

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

	2001 HK\$'000	2000 HK\$'000
(Loss) earnings for the purpose of basic (loss) earnings per share and diluted earnings per share	(717,254)	1,341,762

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	9,286,462,072	9,284,793,767
Effect of dilutive potential ordinary shares:		
Options		855,804
Warrants		—
Weighted average number of ordinary shares for the purposes of diluted earnings per share		9,285,649,571

Diluted loss per share for the current year is not presented, as the exercise price of the Company's outstanding warrants was higher than the average market price for shares that would reduce the loss per share.

The computation of diluted earnings per share for 2000 does not assume the exercise of the Company's outstanding warrants as the exercise price of the warrants was higher than the average market price for shares.



## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 14. (Loss) Earnings Per Share (continued)

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2, is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of 2000 earnings per share:		
Reported figures before adjustments	14.35	14.35
Adjustments arising from the adoption of SSAP 32	0.10	0.10
Restated	14.45	14.45

### 15. Investment Properties

	The Group HK\$'000
VALUATION	
At 1 January 2001	15,400
Reclassified from leasehold land and buildings	19,680
Revaluation decrease	(2,200)
At 31 December 2001	32,880

The Group's investment properties are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Properties held under medium term leases:		
– in Hong Kong	15,880	15,400
– in Mainland China	17,000	—
	32,880	15,400

The Group's investment properties were revalued at 31 December 2001 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, at HK\$32,880,000 on an open market, existing use basis. The resulting revaluation decrease of HK\$2,200,000 (2000: HK\$1,350,000) has been charged to the consolidated income statement.

All the investment properties of the Group are rented out under operating leases.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 16. 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
<b>THE GROUP</b>					
<b>COST OR VALUATION</b>					
At 1 January 2001	33,725	11,685	6,405	2,502	54,317
Reclassified to investment properties	(19,680)	—	—	—	(19,680)
Additions	—	1,216	3,401	—	4,617
Disposals	(1,825)	(640)	(1,465)	(185)	(4,115)
Revaluation decrease	(990)	—	—	—	(990)
At 31 December 2001	11,230	12,261	8,341	2,317	34,149
Comprising:					
At cost	—	12,261	8,341	2,317	22,919
At valuation - 2001	11,230	—	—	—	11,230
	11,230	12,261	8,341	2,317	34,149
<b>DEPRECIATION AND AMORTISATION</b>					
At 1 January 2001	280	3,276	2,056	1,245	6,857
Provided for the year	352	2,150	1,476	367	4,345
Eliminated on disposals	(355)	(278)	(726)	(185)	(1,544)
Eliminated on valuation	(277)	—	—	—	(277)
At 31 December 2001	—	5,148	2,806	1,427	9,381
<b>NET BOOK VALUES</b>					
At 31 December 2001	11,230	7,113	5,535	890	24,768
At 31 December 2000	33,445	8,409	4,349	1,257	47,460

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 16. Property, Plant and Equipment (continued)

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

	The Group	
	2001 HK\$'000	2000 HK\$'000
Properties situated in Hong Kong, held under medium term leases	4,600	8,100
Properties situated in the Mainland China, held under:		
– long term leases	2,930	3,100
– medium term leases	3,700	22,245
	<b>11,230</b>	<b>33,445</b>

All the land and buildings of the Group were revalued at 31 December 2001 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on an open market value basis. The resulting revaluation decrease of HK\$713,000 (2000: HK\$2,395,000) 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\$19,443,000 (2000: HK\$51,423,000).

### 17. Interests in Subsidiaries

	The Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	32,168	32,168
Amounts due from subsidiaries	3,135,122	3,428,946
	<b>3,167,290</b>	<b>3,461,114</b>
Less: Impairment loss recognised	(94,524)	(63,524)
	<b>3,072,766</b>	<b>3,397,590</b>

Particulars of the principal subsidiaries as at 31 December 2001 are set out in note 39.

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.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 18. Interests in Associates

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	54,379	73,056
Less: Impairment loss recognised	—	(7,812)
	<b>54,379</b>	65,244

Particulars of the principal associate as at 31 December 2001 are set out in note 40.

## 19. Interest in a Jointly Controlled Entity

	The Group	
	2001 HK\$'000	2000 HK\$'000
Shares of net assets	2,045	—

Particulars of the jointly controlled entity as at 31 December 2001 and set out in note 41.

## 20. Investments in Securities

The Group	Trading investments		Other investments		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities						
– listed in Hong Kong	665,685	1,443,988	285,409	381,613	951,094	1,825,601
– unlisted	127,319	492,175	—	6,000	127,319	498,175
	<b>793,004</b>	1,936,163	<b>285,409</b>	387,613	<b>1,078,413</b>	2,323,776
Carrying amount analysed for reporting purposes as						
– Non-current	—	—	264,984	339,638	264,984	339,638
– Current	793,004	1,936,163	20,425	47,975	813,429	1,984,138
	<b>793,004</b>	1,936,163	<b>285,409</b>	387,613	<b>1,078,413</b>	2,323,776
Market value of listed securities	665,685	1,443,988	285,409	381,613	951,094	1,825,601

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 20. Investments in Securities (continued)

As at 31 December 2001, particulars of the Group's investments in the equity securities which exceed 10% of the assets of the Group disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Company
Sun Hung Kai & Co. Limited	Hong Kong	Ordinary	16.63%
Pacific Century CyberWorks Limited	Hong Kong	Ordinary	0.36%

### 21. Inventories

	The Group	
	2001 HK\$'000	2000 HK\$'000
Inventories held for resale	12,911	20,634

At 31 December 2001, inventories of HK\$9,278,000 (2000: HK\$5,587,000) were carried at net realisable value.

### 22. Debtors, Deposits and Prepayments

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

An aged analysis of trade debtors is as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 90 days	18,397	22,601
91 - 180 days	132	41
181 - 360 days	434	6,604
Over 360 days	684	2,216
	19,647	31,462
Other debtors, deposits and prepayments	26,726	41,144
Net premium paid for derivatives	45,724	—
	92,097	72,606

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 23. Creditors and Accrued Charges

An aged analysis of trade creditors is as follow:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 90 days	8,071	15,918
91 - 180 days	37	139
181 - 360 days	501	3,106
Over 360 days	8,928	7,386
	17,537	26,549
Other creditors and accrued charges	112,858	115,604
	130,395	142,153

## 24. Bank Borrowings

	The Group	
	2001 HK\$'000	2000 HK\$'000
Short term bank loans - secured	—	265,519

## 25. Amounts Due to Subsidiaries

The amounts are unsecured, interest free and have no fixed terms of repayment. The subsidiaries confirmed that the 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.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 26. Share Capital

	Number of shares		Value	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year	<b>30,000,000,000</b>	15,000,000,000	<b>300,000</b>	150,000
Increase during the year	—	15,000,000,000	—	150,000
At end of the year	<b>30,000,000,000</b>	30,000,000,000	<b>300,000</b>	300,000
Issued and fully paid:				
At beginning of the year	<b>9,286,461,740</b>	9,279,190,490	<b>92,865</b>	92,792
Share options exercised (note a)	—	7,250,000	—	72
Warrants exercised (note b)	<b>600</b>	21,250	—	1
At end of the year	<b>9,286,462,340</b>	9,286,461,740	<b>92,865</b>	92,865

Notes:

- (a) During the year ended 31 December 2000, 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.
- (b) During the year ended 31 December 2001, warrants were exercised to subscribe for 600 (2000: 21,250) ordinary shares of the Company at an exercise price of HK\$0.30 (2000: HK\$0.30) per share.

### Warrants

During the year ended 31 December 2000, 1,856,688,098 warrants in the value of HK\$557,006,429 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).

At 31 December 2001, the Company had outstanding 1,856,666,248 warrants in the value of HK\$556,999,874.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 27. Reserves

	Share premium HK\$'000	Negative goodwill HK\$'000	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
<b>THE GROUP</b>									
At 1 January 2000									
– as originally stated	1,134,343	32,883	—	—	3,471,277	1,922	2,539	(517,353)	4,125,611
– prior year adjustment in respect of adoption of SSAP 32	—	—	—	—	—	—	—	77,043	77,043
– as restated	1,134,343	32,883	—	—	3,471,277	1,922	2,539	(440,310)	4,202,654
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 disposal of other investments	—	—	—	—	(3,306,391)	—	—	—	(3,306,391)
Revaluation decrease of other investments	—	—	—	—	(326,679)	—	—	—	(326,679)
Impairment loss recognised in respect of other investments	—	—	—	—	97,456	—	—	—	97,456
Profit for the year	—	—	—	—	—	—	—	1,341,762	1,341,762
At 31 December 2000 as restated	1,135,685	32,883	(31,272)	90,381	(64,337)	1,922	2,609	901,452	2,069,323
Share of reserve of an associate	—	—	—	—	—	—	(469)	—	(469)
Revaluation decrease of other investments	—	—	—	—	(127,632)	—	—	—	(127,632)
Impairment loss recognised in respect of other investments	—	—	—	—	22,851	—	—	—	22,851
Impairment loss recognised in respect of goodwill	—	—	30,035	—	—	—	—	—	30,035
Loss for the year	—	—	—	—	—	—	—	(717,254)	(717,254)
Dividend paid (note 13)	—	—	—	—	—	—	—	(46,432)	(46,432)
At 31 December 2001	1,135,685	32,883	(1,237)	90,381	(169,118)	1,922	2,140	137,766	1,230,422
Attributable to:									
Company and subsidiaries	1,135,685	32,883	(569)	90,381	(169,118)	1,922	2,539	190,282	1,284,005
Associates	—	—	(668)	—	—	—	(399)	(52,346)	(53,413)
A jointly controlled entity	—	—	—	—	—	—	—	(170)	(170)
	1,135,685	32,883	(1,237)	90,381	(169,118)	1,922	2,140	137,766	1,230,422



# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 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
<b>THE COMPANY</b>						
At 1 January 2000	1,134,343	32,883	1,922	—	27,772	1,196,920
Net premium arising on 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
At 31 December 2000 as restated	1,135,685	32,883	1,922	90,381	80,908	1,341,779
Loss for the year	—	—	—	—	(65,008)	(65,008)
Dividend paid (note 13)	—	—	—	—	(46,432)	(46,432)
At 31 December 2001	1,135,685	32,883	1,922	90,381	(30,532)	1,230,339

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:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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:

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	32,883	32,883
(Deficit) retained profits	(30,532)	80,908
	2,351	113,791

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 28. Deferred Taxation

The unrecognised potential deferred tax credit of the Group for the year is HK\$237,500,000 (2000: HK\$10,096,000), which comprises mainly the tax effect of timing differences arising from tax losses arising/utilised.

As at 31 December 2001, the potential deferred taxation asset not recognised in the financial statements of the Group is HK\$261,114,000 (2000: HK\$23,614,000), 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 (Loss) Profit before Taxation to Net Cash Inflow (Outflow) from Operating Activities

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(732,640)	1,321,989
Interest income	(3,868)	(25,336)
Interest expense	7,360	13,723
Gain on disposal of other listed investments	(5,292)	(2,870,891)
Impairment loss recognised in respect of other investments	22,851	97,456
Gain on disposal of an associate	—	(7,800)
Other unrealised and realised losses on trading investments	213,281	1,150,833
Depreciation of property, plant and equipment	4,345	3,085
Revaluation decrease of investment properties	2,200	1,350
Revaluation decrease of leasehold land and buildings	713	2,395
Loss on disposal of property, plant and equipment	1,509	198
Impairment loss recognised in respect of goodwill	30,035	—
Share of results of associates	12,593	884
Share of result of a jointly controlled entity	170	—
Loss on deemed acquisition of additional interest in a subsidiary	4,458	—
Decrease (increase) in inventories	7,723	(2,246)
(Increase) decrease in debtors, deposits and prepayments	(12,837)	25,755
Decrease (increase) in investments in securities	911,753	(3,086,996)
(Decrease) increase in creditors and accrued charges	(11,758)	28,135
Increase (decrease) in customers' deposits and receipts in advance	59,814	(1,113)
Net cash inflow (outflow) from operating activities	512,410	(3,348,579)

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 30. Purchase of a Subsidiary

In 2000, the Group acquired 100% of the issued share capital of Fortune Focus Holdings Limited for a consideration of HK\$3,000,000. This acquisition had been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was 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
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 in 2000 did not make a material contribution to the Group's net operating cash flows and turnover in that year.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 31. Analysis of Changes in Financing During the Year

	Share capital and premium HK\$'000	Bank borrowings HK\$'000	Warrant reserve HK\$'000
Balance at 1 January 2000	1,227,135	679	—
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 loans raised during the year	—	1,397,866	—
Repayment during the year	—	(1,140,255)	—
Interest accrued	—	7,229	—
Transfer	1	—	(1)
Balance at 31 December 2000	1,228,550	265,519	90,381
Interest accrued	—	7,134	—
New loans raised during the year	—	1,606,126	—
Repayment during the year	—	(1,878,779)	—
Balance at 31 December 2001	1,228,550	—	90,381

## 32. Analysis of the Balances of Cash and Cash Equivalents

	2001 HK\$'000	2000 HK\$'000
Bank balances and cash	214,503	43,275

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 33. 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 2001 amounted to nil (2000: HK\$122,612,000).

In addition, the Company has also provided guarantees to several securities houses in respect of the facilities granted to subsidiaries. As at 31 December 2001 and 2000, no facilities were utilised by the 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 Pacific Century Cyberworks Limited (formerly Tricom Holdings Limited "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.

## 34. Litigations

- (a) 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 was on the basis of a chop of STSL on the contract between Digital TV and nCube. STSL had taken legal advice and had been advised that it was very unlikely that STSL would be held liable to the claim of nCube. Digital TV was also opposing the claim of nCube and had taken legal advice.

As advised by its lawyers, Digital TV had reasonable grounds in defending the claim and, accordingly, had 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 had failed to take further action since that date. There was no progress during the year in respect of the litigation.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 34. Litigations (continued)

(b) 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 was to pay Digital TV its cost of the petition, which amounted to HK\$253,952. Stellar One had indicated that it would 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 had reasonable grounds in defending the claims and, accordingly, had 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.

## 35. 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	
	2001 HK\$'000	2000 HK\$'000
Marketable securities	218,368	1,425,212

## Notes to the Financial Statements

for the Year Ended 31 December 2001

### 36. Operating Lease Arrangements

*The Group as lessee:*

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	11,524	11,720
In the second to fifth year inclusive	5,049	15,911
	<b>16,573</b>	27,631

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouses. Leases are negotiated for an average term of two to five years.

*The Group as lessor:*

Property rental income earned during the year was HK\$4,903,000 (2000: HK\$1,653,000). The investment properties are expected to generate rental yields of 5.7%. The properties held have committed tenants for an average of two to five years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	5,666	2,659
In the second to fifth year inclusive	6,110	2,346
	<b>11,776</b>	5,005

## 37. Retirement Benefit Schemes

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 of HK\$201,000 (2000: HK\$493,000), amounting to HK\$165,000 (2000: HK\$378,000).

In addition to the defined contribution retirement benefit scheme, the Group is required to contribute respectively to Mandatory Provident Fund and central pension schemes for certain employees in Hong Kong and Mainland China based on applicable rates of monthly salary in accordance with the relevant regulations.

As at 31 December 2001 and 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.

## 38. Related Party Transactions

- (a) The directors of the Company announced on 3 December 2001 that, the directors of Fulltime Profits Limited ("Fulltime"), a non wholly-owned subsidiary of the Company, have resolved on 26 November 2001, upon completion of the subscription of the new shares to be issued pursuant to the rights issue (the "Rights Share(s)") by Superior Team Limited ("Superior Team"), a wholly-owned subsidiary of the Company, (the "Subscription"), to issue and allot to Superior Team, a total of 600 Rights Shares of US\$1.00 each, which included 270 Rights Shares being the taking up of the rights entitlement in the said rights issue assigned from the other Shareholder of Fulltime by Superior Team, in the share capital of Fulltime for the consideration in cash of HK\$30,000,000 pursuant to the rights issue of Fulltime. The directors of the Company, including the independent non-executive directors, considered that the issue price of the Rights Shares is fair and reasonable.

The Rights Shares rank *pari passu* in all respects with the existing issued shares of Fulltime. The Rights Shares were issued at a price of HK\$50,000 per Rights Share and represented approximately 600% of the issued share capital of Fulltime before the Subscription and approximately 85.71% of the enlarged issued share capital of Fulltime. After the Subscription, the Group's shareholding in Fulltime has been increased from 55% to approximately 93.57% of the enlarged issued share capital.



# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 38. Related Party Transactions (continued)

- (b) During the year ended 31 December 2001, the Company paid a reimbursement of expenses of HK\$6,000,000 (2000: HK\$6,000,000) to China Sci-Tech Holdings Limited ("CST"), a substantial shareholder of the Company. The reimbursement includes (i) salaries of two directors of the Company, both of them are also 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) As part of the note 26 relating to warrants, the Company issued 37,148,000 and 600,000,000 warrants of the Company to Harbour Fair Overseas Limited and Vigor Online Offshore Limited on 2 June 2000 respectively, both of which are wholly-owned subsidiaries of CST, 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 for 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.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 39. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2001 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
<b>Directly held</b>				
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
<b>Indirectly held</b>				
China Online Nominees Limited (formerly known as Star Telecom Overseas Limited)	Hong Kong	Ordinary HK\$200	100%	Investment holding
Dualiane Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Focus Clear Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in Hong Kong
Forepower Limited	The British Virgin Islands	Ordinary US\$1	100%	Property investment in Hong Kong
Fulltime Profits Limited	The British Virgin Islands	Ordinary US\$700	93.57%	Investment holding
Genwo Limited	Hong Kong	Ordinary HK\$200,000	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 2001

### 39. 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
<b>Indirectly held (continued)</b>				
Honest Opportunity Limited	The British Virgin Islands	Ordinary US\$1	<b>100%</b>	Securities trading in Hong Kong
Kintic Limited	Hong Kong	Ordinary HK\$2	<b>100%</b>	Property investment
Konnac Limited	Hong Kong	Ordinary HK\$2	<b>100%</b>	Property holding
Natural Flair Limited	The British Virgin Islands	Ordinary US\$1	<b>100%</b>	Investment holding
Pro Leader Limited	The British Virgin Islands	Ordinary US\$1	<b>100%</b>	Investment holding
Rich Investments Limited	Hong Kong	Ordinary HK\$2	<b>100%</b>	Property holding
上海得信佳通信設備 有限公司 (Shanghai Tricom Telecom Equipment Co., Ltd.)	Mainland China	Registered US\$4,500,000	<b>87.3%</b>	Sale and distribution of telecommunication equipment and provision of intelligent building system integration services
上海星際通電子通訊產品 連鎖銷售有限公司 (Shanghai Tristar Telecom Co., Ltd.)	Mainland China	Registered RMB2,000,000	<b>87.3%</b>	Sale and distribution of telecommunication equipment

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for the Year Ended 31 December 2001

## 39. 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
<b>Indirectly held (continued)</b>				
Sparkling Summer Limited	The British Virgin Islands	Ordinary US\$6,500,000	<b>100%</b>	Securities trading in Hong Kong
Star Telecom (China Investment) Limited	Hong Kong	Ordinary HK\$2	<b>100%</b>	Investment holding
Star Telecom Holding Limited	Hong Kong	Ordinary HK\$200 Deferred # HK\$4,000,000	<b>100%</b>	Investment holding
Star Telecom Limited	Hong Kong	Ordinary HK\$3,000,000	<b>100%</b>	Telecom and IT products and services
Star Telecom Properties Limited	Hong Kong	Ordinary HK\$200	<b>100%</b>	Investment and property holding
Superior Team Limited	The British Virgin Islands	Ordinary US\$1	<b>100%</b>	Investment holding
Taskwell Limited	The British Virgin Islands	Ordinary US\$1	<b>100%</b>	Investment holding
Tricom Shanghai Communications Limited	Hong Kong	Ordinary HK\$2	<b>93.57%</b>	Investment holding
Tricom Tianchi Limited	Hong Kong	Ordinary HK\$2	<b>100%</b>	Investment holding

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 39. 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
<b>Indirectly held (continued)</b>				
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 rights 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.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or 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 debts securities subsisting at 31 December 2001 or at any time during the year.

## 40. Particulars of A Principal Associate

Particulars of the principal associate as at 31 December 2001 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.

# Notes to the Financial Statements

for the Year Ended 31 December 2001

## 41. Particulars of A Jointly Controlled Entity

As at 31 December 2001, the Group had interests in the following jointly controlled entity:

Name	Business structure	Place of incorporation/ registration	Principal place of operation	Percentage of interest attributable to the Group	Principal activities
泰州得信佳通信設備有限公司 (Taizhou Tricom Telecom Equipment Co., Ltd.)#	Corporate	Mainland China	Mainland China	69.84%	Sale and distribution of telecommunication equipment

# The Group does not have effective control over the company, and accordingly, the company has not been accounted for as a subsidiary.