



Asian Information Resources (Holdings) Limited

Annual Report 1999

Characteristics of GEM of the Stock Exchange

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

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

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

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Corporate Information

Board of Directors

Mr. Leung Chung Wan
Mr. Chan Chi Ming
Ms. Tam Yee Wa, Jojo
Mr. Chau Tak Tin *
Ms. Yvette Ong *
Mr. Kwan Pun Fong, Vincent *
Mr. To Hin Tsun, Gerald **
Mr. Peter Francis Amour **
Mr. Law Shiu Kai, Andrew **

* *Non-Executive Director*

** *Independent Non-Executive Director*

Compliance Officer

Mr. Chan Chi Ming

Company Secretary

Ms. Chan Yee Wah, *MBA, AHKSA, ACIS*

Qualified Accountant

Ms. Chan Yee Wah, *MBA, AHKSA, ACIS*

Audit Committee

Mr. To Hin Tsun, Gerald
Mr. Peter Francis Amour
Mr. Law Shiu Kai, Andrew

Sponsor

Tai Fook Capital Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

Auditors

Arthur Andersen & Co

Solicitors

Conyers Dill & Pearman, Cayman
Kwok & Yih

Corporate Information

Head Office and Principal Place of Business	Room 1701 Shanghai Industrial Investment Building 48-62 Hennessy Road Wanchai, Hong Kong
Website of the Company	www.airnet.com.hk
Registered Office	Zephyr House Mary Street George Town Grand Cayman Cayman Islands British West Indies
Principal Share Registrar and Transfer Office	Bank of Butterfield International (Cayman) Limited Butterfield House Fort Street P. O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	HKSCC Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal Bankers	The Hongkong and Shanghai Banking Corporation Limited The Standard Chartered Bank Dao Heng Bank Limited

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Asian Information Resources (Holdings) Limited ("the Company") will be held at Gloucester Room I, 3rd Floor, Excelsior Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong on 26th April, 2000 (Wednesday) at 3:30pm for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December, 1999;
2. To re-elect retiring Directors and authorise the Board of Directors to fix their remuneration;
3. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

4. **THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time; shall not exceed the aggregate of:
 - (i) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

Notice of Annual General Meeting

(ii) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).

5. THAT:

- (a) the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to purchase its Shares on the Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange of Hong Kong Limited, the articles of association of the Company, the Companies Law (Revised) of the Cayman Islands and all other applicable laws in this regard, be the same is hereby generally and unconditionally approved;

Notice of Annual General Meeting

- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent, of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
 - (c) for the purpose of this Resolutions, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:—
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.
6. **THAT** the Directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By Order of the Board
Chan Yee Wah
Company Secretary

Hong Kong, 28th March, 2000

Notice of Annual General Meeting

Registered Office:

Zephyr House, Mary Street,
George Town, Grand Cayman,
Cayman Islands, British West Indies

Head Office and Principal Place of Business:

Room 1701, Shanghai Industrial Investment Building,
48-62 Hennessy Road, Wanchai,
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
3. In relation to proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
4. In relation to proposed resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 31st December, 1999.

Chairman's Statement

BUSINESS REVIEW AND PROSPECT

The Group recorded a net loss of HK\$1,396,000 for the year ended 31st December 1999, a slight improvement when compared with the loss of HK\$1,834,000 for the previous financial year. The turnover dropped from HK\$8,050,000 of last year to HK\$7,473,000. However, the fact that the revenue generated from content solutions services is greater than that from Internet solutions services reinforces the strategic move of the Group to become the leading global online content provider of Greater China business information.

By leveraging on its proprietary technology that enables the distribution of the Group's content across a wide variety of formats and its know-how in content management as well as Internet solutions, the Group aims at becoming an active player in e-commerce operations by working with experienced industrial players.

Review of Operations

1. *Content Solutions Services*

The Directors consider that the success of the Group and its ability to maintain its position as one of the leading online Greater China business information providers is attributable to various factors including its proprietary system which adds value to content before delivery.

The size and variety of the Group's content database and its large number of raw content providers had secured the Group as one of the largest Greater China business information providers on the Internet. The subsisting contracts with a number of raw content providers, including government and quasi-government bodies, professional journals, national newspapers and statisticians, also ensure credibility and appropriateness of our content distributed, which includes China national and regional laws and regulations, news, statistics and corporate and financial data.

The Group had recently entered into agreements with some new information partners in China such as Xin Hua News, All China Marketing Research Company, Modernization and Development Research Center Guangdong Academy of Social Sciences. By maintaining good relationship with our existing information providers, a number of contracts were renewed with the existing information partners including Information Centre, Office of the Legislative Affairs of the State Council (PRC), China Daily, People's Daily, Science and Technology Daily, Ta Kung Pao, IDG and Legal Daily.

Chairman's Statement

The Group has been working closely with its existing clients. The co-operation with Cable & Wireless HKT IMS Limited and Taiwan CHT Data Communications Branch to operate the Great China Web (www.gcw.net) and the LE Net (asianinfo.hinet.net) are proceeding satisfactorily. The content solutions services provided by the Group is increasing steadily. The Directors consider that the rapid growth of the internet market will provide great opportunity to the Group in providing information to all media through multiple devices. The Group intends to form new strategic alliances with business portals and websites by adopting flexible business models through licensing, subscription, one-off purchase and advertising.

In order to maintain and increase competitiveness, the Group is translating a number of content into the English language.

2. Internet Solutions Services

It is the strength of the Group to develop integrated solutions to large scale website projects. The Group recently managed a large-scale project for Hong Kong Trade Development Council to develop a platform capable of handling large amount of database. In January 2000, the "Parents Community Platform" developed by the Group was launched. It is an interactive and multimedia Internet platform that involves the management of a massive scale of content and hyperlinks. The participation of the Group in such large-scale projects helped promoting the corporate image of the Group in the Internet community.

3. E-commerce Operations

The Directors consider that e-commerce business will become one of the main income streams of the Group in the future. It is the Group's strategy to set up joint ventures with experienced industry players in different industries to integrate the content and technology of the Group with the partners' industrial know-how to develop e-commerce operations.

At present, the Group has teamed up with three industrial players to develop three different e-commerce operations. Among the three partners, Advantage Mortgage, an independent multi-lender mortgage brokerage firm, will serve as a one-stop on-line mortgage centre matching mortgages with the most competitive rates from a wide lender base to potential borrowers in the residential mortgage market.

i-Textile offers real-time online textile trading services, including sourcing, bidding, order-checking and delivery. This e-commerce application targets small- and medium-sized textile and garment companies that continually need to source suitable and competitively priced textile products such as fabrics and yarns in the shortest possible time.

Jointly formed by AIR and China Collections Limited, BuyCollection.com is Asia's first Business to Customer online superstore for Chinese collectables.

Chairman's Statement

OUTLOOK

The Group intends to expand its content development operations in Guangzhou and Beijing, and will set up another content development center in Shanghai, the PRC in the second half of 2000 in order to provide the Group with more flexibility in re-formatting and distribution of customized content for customers. In addition, the Group will form strategic alliances with local partners for content development in the Greater China region. This arrangement is expected to minimize capital cost and also to capitalize on the expertise of the local partners in raw content sourcing. The Group has planned to translate part of its content into the Japanese language during the first half of 2000. The Directors believe that the entering of the PRC and Taiwan into the World Trade Organisation will provide even greater opportunities to the Group as the demand for China business information is expected to be very strong.

It is the Group's intention to build a strong corporate image in domestic market and expand globally. The Group will further enhance its investor relations and media relations through organizing seminars, exclusive meetings, briefings and interviews on a regular basis.

In addition, the Group will be looking at potential e-commerce ventures in the year of 2000.

DEDICATED TEAM

Last but not least, the total commitment of the Group's management team and staff provides added reassurance. The team has worked tirelessly to further the growth of the Group and develop its range of products and services. I would therefore like to take this opportunity to thank them for their dedication.

I would also like to extend my deepest appreciation to all our business partners including our information partners and affiliate partners and our business associates for their consistent support. It is in working with them that the Group will be able to enhance its business position as well as to expand into new opportunities.

Leung Chung Wan
Chairman

Hong Kong, 28th March, 2000

Managing Director's Operational Review

FINANCIAL REVIEW

I am pleased to report the fiscal result of the Group for the year of 1999 which is a great year for the Group. The successful listing of Asian Information Resources (Holdings) Limited on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16th December 1999 has been a significant turning point for the Group. With the fund raised of about HK\$135M., the Group can capture the opportunities arisen from the fast-growing internet market in the New Economy. As the Group develop and grow, I believe the Group can maximize value for our shareholders while offering best value for our customers, business partners and associates.

The turnover of the Group declined by 7% to HK\$7,473,000 when compared with the turnover of last year. The loss from operation reduced to HK\$489,000 with the net loss decreased to HK\$1,396,000 in 1999. The main reason for the drop in turnover was due to the strategic shift of the Group from providing internet solutions services to content solutions services. This reinforces the Group's mission to become the leading global online content provider for Greater China business information. This explained for the increase in turnover of content solutions services.

The increase in the general overheads resulting from the generic growth of the Group has lead to the greater operation cost. The Board of Directors believe that the exceptional loss on the group re-organization of about HK\$861,000 will streamline the operations and rationalize the organizational structure, though bringing in one-time accounting loss, should benefit the Group in the long-run.

The gross profit margin has been reduced from 73% in 1998 to 63% in 1999. The main reason for such decrease was due to the increase in the cost to Information Providers. The Group has engaged with a number of Information Providers in current year so as to enrich its raw content database. This move will squeeze the profit margin in the short-run, but will certainly bring in additional income source in the long-run.

REVIEW OF THE OPERATIONS

As part of the Group's business development plan to sustain long-term growth in the Internet age, the Group recently announced a new corporate structure to drive its three core businesses, namely content, information technology and e-commerce.

Content Solutions Services

The Group's aim is to become a leading electronic publishing group and on-line content provider in the region. Internet business information providers currently face two major challenges - short product cycle and decreasing value of general content. By adopting a flexible business model with four revenue streams - purchases, subscriptions, licensing and advertising, the Group can generate stable income in the short and medium term, while at the same time fully exploit the long-term potential of on-line content business delivering content through any networks and any devices. Regarding the problem of

Managing Director's Operational Review

decreasing value of general content, the Group constantly enhances the value of information and widens distribution network and customer base. The Group is not just distributing information, it also participates in conducting research and producing reports. Unlike many other content providers, the Group owns much of the copyright of information and data it distributes on the Internet.

Recently the Group has renewed nearly all of its existing partnership agreements and signed new agreements with several leading raw-content providers in China, including Guangdong Academy of Social Sciences and All China Marketing Research Company Limited (a subsidiary of State Statistics Bureau of China).

Under the agreement with the Guangdong Academy of Social Sciences, the Group gains exclusive rights to translate the documents into English, to publish and distribute the reports outside China as well as to publish the reports on the Internet. The reports, including the "Guangdong Modernization Progress Blue Paper" and reports of the biannual Guangdong Economic conference and the "Analysis of the Economic Environment" seminars, are all premium and exclusive economic documents. These agreements give the Group exclusive rights for a series of high-level and authoritative research reports, allowing the company to expand further into premium publishing market.

The agreement with All China Marketing Research Company Limited a professional market research and information services company under the State Statistics Bureau of China, enables the Group to have exclusive rights in the first year to publish and distribute exclusive and premium intelligence reports, cover 40 industries via the Internet. The Group and All China Marketing Research Company Limited co-own the copyright of the above intelligence reports.

Besides working with the existing distribution partners of Cable & Wireless HKT IMS Limited and Taiwan CHT Data Communications Branch to operate the Great China Web (www.gcw.net) and the LE Net (asianinfo.hinet.net), the Group recently launched its new product www.chinareference.com which provides flexible business models through licensing, subscription, one-off purchase and advertising. This information platform is a gateway to retrieve professional and timely China business information, which meets the needs and interests of various licensing users/ partners, subscribers and business experts.

The database, available in Chinese, English and Japanese, provides resourceful and powerful knowledge support through four product areas. The first product is **ContentPartner**, consisting of cost-effective source of Greater China business information that can be licensed to portals and corporate websites. The second product is **ContentPremium** which provides customized information by industry. The third product is **ContentExpert**, providing market overview and unique competitive intelligence to existing and potential business in China with the collaboration of China research institutions. The fourth product is **FreeZone** with complimentary news extracts designed to help boost the web traffic, and to generate advertising revenue for affiliate websites. The Group has entered into agreement with DoubleClick Asia, part of DoubleClick Inc., the worldwide leader in global Internet advertising solutions, as the exclusive representative for the sale of banner advertisements on the website of Chinareference.com. It is believed that the partnership with DoubleClick will help the Group capture the growing market for internet marketing and generate advertising revenue for the Group.

Managing Director's Operational Review

Internet Solutions Services

The Group focus on delivering enabling technologies to help corporations re-engineer their business processes so that they can gain business advantages from this Internet age. A research and development centre will be set up in South China to provide innovative Internet solutions for corporations.

Major contracts won by the Group include assignments from The Committee of the Promotion of Civic Education of Hong Kong, The Legislative Council Commission of Hong Kong, The Law Society of Hong Kong, the Hong Kong SAR Government's Census and Statistics Department and the Intellectual Property Department.

E-commerce Investment

Leveraging on the Group's strengths in electronic publishing and Internet technology, the Group enhances its engagement in e-commerce operations.

For many e-commerce projects, the challenge is not capital, technology or business concept, but the ability to execute the project. The Group believes that one of the critical success factors is industry knowhow. The combined strengths of industry knowhow, capital, technology, content and strong China contacts will lead to the successful execution and roll-out of the projects.

The Group has entered into partnerships with "Advantage Mortgage" (www.admortgage.com), "I-Textile" (www.i-textile.com) and "BuyCollection.com" (www.BuyCollection.com) to provide e-commerce services for a wide range of on-line customers.

Among the three partners, Advantage Mortgage, an independent multi-lender mortgage brokerage firm, serves as a one-stop on-line mortgage centre matching mortgages with the most competitive rates from a wide lender base to potential borrowers in the residential mortgage market. The site was successfully launched in February 2000.

i-Textile offers real-time online textile trading services, including sourcing, bidding, order-checking and delivery. This e-commerce application targets small and medium size textile and garment companies which continually need to source suitable and competitively priced textile products such as fabrics and yarns in the shortest possible time. The site will be launched in the second quarter of 2000.

BuyCollection.com is a customer online superstore for Chinese collectables. It offers approximately 7,000 pieces of collectables with certification by Chinese Collectors' Association. The site features an online museum of Chinese collectables and has two warehouses located in China, brings the cost, transportation and communications benefits of e-commerce to Chinese antique collectors and connoisseurs. The website is expected to be launched in the second quarter of 2000.

Managing Director's Operational Review

PROSPECTS

With the launching of the Chinareference.com, it is believed that it will have significant contribution to the Group's overall revenue. The flexible fee structure with four income streams will generate stable income in the short and medium term, and fully exploit the long term potential of electronic publishing via all devices.

With the steady growth on the internet solutions services and the potential return on the e-commerce ventures, the Group is looking ahead for a promising future.

C.M. Chan
Managing Director

Hong Kong, 28th March, 2000

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Leung Chung Wan, aged 49, is the chairman of the Group. Mr. Leung is responsible for the Group's overall strategic planning and development. Mr. Leung has over 25 years' experience in education and administrative management. Mr. Leung was appointed as division chief, Department of Education, Science and Technology of Xin Hua News Agency (Hong Kong Branch) from 1985 to 1991. In addition, Mr. Leung made much contribution to community activities including being the member of the Curriculum Development Council, the member of the Board of Review (Film Censorship) and the vice chairman of the Hong Kong Youth Development Council. Mr. Leung joined the Group since December, 1996.

Mr. Chan Chi Ming, aged 38, is the managing director of the Company. Mr. Chan is responsible for the Group's overall management and business planning. Mr. Chan is also the compliance officer of the Company. Mr. Chan specializes in content and technology development. Mr. Chan has been appointed by the Asian Development Bank as consultant to a PRC legal information system project, acting as an electronic data expert for the follow up project. Mr. Chan has set up an electronic database system for the Law-On-Line project of The University of Hong Kong and provided technical consultancy to this project since 1993. Mr. Chan was also a column writer commenting on Chinese law. Mr. Chan has obtained Master of Philosophy (M. Phil) in Physics, Bachelor of Science in the Chinese University of Hong Kong, and LL.M in Law in Society in The Lancaster University, United Kingdom. Mr. Chan joined the Group since December, 1996.

Ms. Tam Yee Wa, Jojo, aged 38, is the Executive Director of the Company. She is in charge of the Corporate Communications and Marketing Department. Ms. Tam joined the Group in May 1997. Ms. Tam is a visiting researcher at the Global Information and Telecommunication Institute of The Waseda University, Tokyo in Japan. Ms. Tam has academic background in media studies, a master degree in development studies, and a master degree in law. In June 1991, Ms. Tam started a human rights laws research and database project at the Faculty of Law of The University of Hong Kong, which became the Law-On-Line database project in 1993, providing China laws and related information on the Internet. In 1997, Ms. Tam joined Asian Information Resources Limited as Executive Director, leading the research and consultancy team.

NON-EXECUTIVE DIRECTORS

Mr. Chau Tak Tin, aged 43, is a non-executive Director and is responsible for the development and coordination in the Group's China-related business. Mr. Chau joined the Group in March 1998. Mr. Chau is the Chairman of China Investment Council Limited, the person-in-charge of China VC Net Limited and the vice-president of the National Association of Collectors of China. Mr. Chau has a master degree in philosophy of The Zhongshan University, China.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS *(Cont'd)*

Ms. Yvette Ong, aged 35, is a non-executive Director. Ms. Ong joined the Group in September 1999. Ms. Ong holds a master degree of business administration in marketing and management information system and a bachelor degree of science in finance and management from The University of San Francisco, US. Ms. Ong has over 8 years of experience in the information technology industry. Ms. Ong is the managing director of New World CyberBase Limited which is a listed company in Hong Kong. Prior to joining New World CyberBase Limited, Ms. Ong was the managing director of AT&T EasyLink Services Asia Pacific Limited.

Mr. Kwan Pun Fong, Vincent, aged 49, is a non-executive Director. Mr. Kwan joined the Group in October, 1999. Mr. Kwan is the managing director of Hintful Capital Limited. Mr. Kwan has 24 years of corporate experience in the Asia Pacific, having spent a total of 16 years in Japan, Australia, Taiwan, China and Singapore, principally in the field of banking, finance, business development and corporate strategy. His personal involvement in high technology and experience in direct investment and venture capital dated as early as 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To Hin Tsun, Gerald, aged 50, is an independent non-executive Director. Mr. To has been a practising solicitor in Hong Kong since 1975. Mr. To is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. Mr. To is currently the senior and managing partner of Messrs T.S. Tong & Co., Solicitors and Notaries. Mr. To is also a non-executive director of five other listed companies in Hong Kong.

Mr. Peter Francis Amour, aged 41, is an independent non-executive Director. Mr. Amour is the managing director and co-founder of Axia Capital Partners Limited which is a merchant bank headquartered in Hong Kong engaging in investment and corporate advisory activities. Mr. Amour is the chairman of SunCorp Technologies Limited, a listed company in Hong Kong. Mr. Amour is a registered investment adviser in Hong Kong and has been admitted to practise as a solicitor in Australia, the United Kingdom and Hong Kong.

Mr. Law Shiu Kai, Andrew, aged 40, is an independent non-executive Director. Mr. Law is a solicitor qualified to practise in Hong Kong, Australia and the United Kingdom. Mr. Law is currently a partner of Fong & Ng, and the Head of its Information Technology Law Practice Group. Mr. Law has devoted extensive efforts on both business and law relating to the information technology industry. Mr. Law had been Honorary Legal Advisor to The Hong Kong Computer Society for several years since 1988 and is the Chairman of Management and Technology for Professional Practice Committee of The Law Society of Hong Kong since 1995 till now.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Chan Yee Wah, aged 34, is the Group's financial controller and secretary of the Company. Prior to joining the Group in September, 1999, Ms. Chan was the group financial controller and company secretary of a listed company in Hong Kong. Ms. Chan has over 15 years' experience in accounting and company secretarial matters. Ms. Chan is an Associate of the Hong Kong Society of Accountants and the Hong Kong Institute of Company Secretaries. Ms. Chan graduated from the City University of Hong Kong with her first degree in Accountancy and then obtained her Master of Business Administration from the University of Nottingham, United Kingdom.

Mr. Wong Lok Chau, aged 36, is the Company's director of Technology, responsible for the Company's development of technology. Mr. Wong has 16-year profound experience in computing industry. Prior to joining the Group in October, 1999, Mr. Wong was the director of a local software company, Star Technology Limited where he was directly responsible for the development architecture and project management. Before that, Mr. Wong was a Senior Systems Analyst with Standard Chartered Bank. Mr. Wong graduated from the Hong Kong Polytechnic University where he studied Computer Studies.

Mr. Yip Chun Yu, Conrad, aged 35, is the senior manager of corporate development department of the Company. Mr. Yip is responsible for exploring new business opportunities at the corporate level. Mr. Yip holds a master degree in law from The Peking University and a bachelor degree in Science from the Chinese University of Hong Kong. Prior to joining the Company in November, 1998, Mr. Yip was a journalist of one of the major financial press in Hong Kong for more than five years.

Ms. Chan Ping, aged 37, is the senior manager of content development department of the Company. Ms. Chan holds a bachelor degree from The Peking University and a master degree from Chinese Academy of Geological Sciences. Ms. Chan was employed by the technology market management office of The Minister of Science and Technology to establish China technology market information management system and organized some of China technology achievement exchange exhibition. Ms. Chan has more than 5 years' experience in the China technology information management. Ms. Chan joined the Group in August 1998.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

The Directors have the pleasure of presenting the first annual report together with the audited financial statements of Asian Information Resources (Holdings) Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st December, 1999.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 4th October, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited ("the Growth Enterprise Market"), the Company became the holding company of the Group on 1st December, 1999. The Company's shares were listed on the Growth Enterprise Market on 16th December 1999.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of on-line content information and related technical services, information technology solutions and consultancy services, and e-commerce investment.

Analysis of the Group's turnover and loss before taxation for the year ended 31st December, 1999 by principal activities are as follows:

	Turnover \$'000	Loss before taxation \$'000
Analysis by principal activities—		
Content solutions services		
– distribution fees	1,622	(356)
– project fees	2,056	(408)
Internet solutions services	2,189	56
Others		
– consultancy project fees	1,461	(592)
– sales of computer accessories	145	(64)
	7,473	(1,364)

No geographical analysis of the Group's turnover and loss before taxation is presented as less than 10% of the consolidated turnover and less than 10% of the consolidated net loss of the Group is attributable to markets outside Hong Kong.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 1999, the five largest customers accounted for 59% of the Group's total turnover and the five largest suppliers of the Group accounted for 32% of the Group's total purchases. The largest customer to the Group accounted for 26% of the Group's total turnover while the largest supplier accounted for 13% of the Group's total purchases.

None of the directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the abovementioned major customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 1999 are set out on page 29 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the retained profit of \$2,496,000 as at 31st December, 1999 be carried forward.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 18 to the accompanying financial statements. There has been no transfer to or from reserves during the year.

DISTRIBUTABLE RESERVES

As at 31st December, 1999, the Company's reserve available for distribution to shareholders amounted to approximately \$104,084,000 computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium and contributed surplus of approximately \$87,706,000 and \$13,882,000, respectively, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business, and retained profit of approximately \$2,496,000.

SHARE CAPITAL AND SHARE OPTIONS

Movements in share capital and details of the share option scheme of the Company are set out in Notes 16 and 17, respectively, to the accompanying financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 1999.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accompanying financial statements.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 11 to the accompanying financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Leung Chung Wan, Chairman	<i>(Appointed on 5th October, 1999)</i>
Mr. Chan Chi Ming	<i>(Appointed on 5th October, 1999)</i>
Ms. Tam Yee Wa, Jojo	<i>(Appointed on 25th January, 2000)</i>

Non-executive directors

Ms. Tam Yee Wa, Jojo	<i>(Appointed on 19th October, 1999 and resigned on 25th January, 2000)</i>
Mr. Chau Tak Tin	<i>(Appointed on 19th October, 1999)</i>
Ms. Yvette Ong	<i>(Appointed on 19th October, 1999)</i>
Mr. Kwan Pun Fong, Vincent	<i>(Appointed on 19th October, 1999)</i>

Independent non-executive directors

Mr. To Hin Tsun, Gerald	<i>(Appointed on 1st December, 1999)</i>
Mr. Peter Francis Amour	<i>(Appointed on 1st December, 1999)</i>
Mr. Law Shiu Kai, Andrew	<i>(Appointed on 1st December, 1999)</i>

All non-executive directors and independent non-executive directors have been appointed for a term of one year.

In accordance with the articles of association of the Company, Mr. To Hin Tsun, Gerald and Mr. Law Shiu Kai, Andrew will retire from office and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forth coming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 1999, the following directors of the Company had or were deemed to have interest in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Leung Chung Wan	960,000	—	—	(note 1)
Mr. Chan Chi Ming	1,440,000	—	—	(note 1)
Ms. Tam Yee Wa, Jojo	1,200,000	—	—	(note 1)
Mr. Chau Tak Tin	—	—	—	(note 1)
Mr. Kwan Pun Fong, Vincent	—	—	—	(note 2)

Note 1: Asian Dynamics International Limited ("Asian Dynamics") hold 264,480,000 Shares of the Company. Asian Dynamics is beneficially owned, inter alia, as to 21.87% by Asian Wealth Incorporated, the entire issued share capital of which is owned by Mr. Leung Chung Wan; 14.16% by Mr. Chan Chi Ming; 6.51% by Ms. Tam Yee Wa, Jojo; and 10.94% by Mr. Chau Tak Tin.

Note 2: Hintful Capital Limited ("Hintful Capital") hold 17,400,000 Shares of the Company. Hintful Capital is beneficially owned, inter alia, as to 25% by Mr. Kwan Pun Fong, Vincent.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 1999.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme, details of which are set out in Note 17 to the accompanying financial statements, certain employees of the Group (including executive directors of the Company) were granted share options to subscribe for shares in the Company subsequent to the end of the financial year. On 25th January, 2000, Mr. Leung Chung Wan, Mr. Chan Chi Ming and Ms. Tam Yee Wa, Jojo were granted 320,000, 640,000 and 320,000 share options, respectively, to subscribe for the Company's shares at an exercise price of \$0.89 exercisable at any time prior to 24th January, 2003.

As at 31st December, 1999, no option has been granted to any of the directors under the share option scheme.

Save as disclosed above, at no time during the year was the Company or any of its fellow subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1999, the following entities (not being a director or chief executive of the Company) had or were deemed to have interests, being 10% or more in the issued share capital of the Company, as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance.

Name	Note	Number of issued shares	Percentage of shareholding
Asian Dynamics International Limited	1	264,480,000	55.10%
Denwell Enterprises Limited	2	61,994,112	12.92%
Asian Wealth Incorporated	3	57,841,776	12.05%
Aldgate Agents Limited	4	66,120,000	13.78%
New World CyberBase Limited	5	66,120,000	13.78%
Mr. Fok Chun Yue, Benjamin	6	61,994,112	12.92%

Report of the Directors

(Amounts expressed in Hong Kong dollars)

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

1. Asian Dynamics International Limited is owned as to about 12.14% by Gradison Investment Limited, about 23.44% by Denwell Enterprises Limited, about 21.87% by Asian Wealth Incorporated, about 14.16% by Mr. Chan Chi Ming, about 6.51% by Ms. Tam Yee Wa, Jojo, about 10.94% by Mr. Chau Tak Tin and about 10.94% by Visionary Group Limited. Gradison Investment Limited is owned by Mr. Ho On Tat, Mr. Lo Chi Kin and Mr. Lam Yuk Wah in equal shares. The entire issued share capital of Denwell Enterprises Limited is owned by Mr. Fok Chun Yue, Benjamin. The entire issued share capital of Asian Wealth Incorporated is owned by Mr. Leung Chung Wan. Visionary Group Limited is owned by Ms. Leung Wing Yu, Bernice and Mr. Lo Wai Chun in equal shares.
2. These shares are attributable to Denwell Enterprises Limited in respect of its 23.44% interests in Asian Dynamics International Limited.
3. These shares are attributable to Asian Wealth Incorporated in respect of its 21.87% interests in Asian Dynamics International Limited.
4. Aldgate Agents Limited is a wholly owned subsidiary of New World CyberBase Limited, the securities of which are listed on the Main Board.
5. These shares are held by New World CyberBase Limited through Aldgate Agents Limited, which is its wholly owned subsidiary.
6. These shares are attributable to Mr. Fok Chun Yue, Benjamin in respect of his 100% interests in Denwell Enterprises Limited.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 1999.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

INTEREST OF SPONSOR

The associates (as referred to Note 3 to Rule 6.35 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("the Listing Rules") of the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), were interested in 4,800,000 shares of \$0.10 each in the share capital of the Company as at 31st December, 1999.

Pursuant to the agreement dated 13th December, 1999 entered into between the Company and Tai Fook, Tai Fook has received and will receive a fee for acting as the Company's retained sponsor for the period from 16th December, 1999 to 31st December, 2001.

YEAR 2000 COMPLIANCE

The Directors are pleased to announce that all computer systems of the Group were fully Year 2000 compliant, and therefore the Year 2000 compliance issue had no material adverse impact on the business operations in all functional areas of the Group.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

AUDIT COMMITTEE

The Company has established an Audit Committee in December, 1999. The members of the Committee are Mr. To Hin Tsun, Gerald, Mr. Peter Francis Amour and Mr. Law Shiu Kai, Andrew, all being independent non-executive directors of the Company. The Committee has met once since its establishment with the management and auditors of the Company to discuss and review the Group's financial reporting process and internal controls.

USE OF PROCEEDS

The proceeds from the issue of new shares pursuant to an initial public offering exercise of the Company in December 1999, after deduction of related expenses, amounted to approximately \$135,000,000 and have been applied as follows:

	Originally *	Amount utilised up to 31st December, 1999
	\$'000	\$'000
Promotion and marketing activities of the Group in Hong Kong, Taiwan and other regions	40,000	—
Development in e-commerce operation	24,000	989
Development in content and new products	18,000	—
Development of additional human resources for future business development and setting up representative offices in target regions	17,000	—
Additional working capital of the Group	36,000	134,011
	135,000	135,000

For the unused proceeds amounting to approximately \$134million at the end of the financial year, it is presently estimated that approximately \$43million and \$64million will be used for the abovementioned promotion and marketing activities, and business developments in the Year 2000 and Year 2001, respectively, with the balance to be used for providing additional working capital of the Group.

* Amounts are extracted from the Company's prospectus dated 7th December, 1999 issued in relation to the Company's initial public offering exercise and proposed listing of shares on the Growth Enterprise Market.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

CONNECTED TRANSACTIONS

The related party transactions disclosed in Note 3 to the accompanying financial statements constituted connected transactions under the Listing Rules. Details of these connected transactions were as follows:

- (a) Project fees received from the associated companies constituted continuing connected transaction. However, as the annual total consideration of the transaction was less than the higher of \$1,000,000 or 0.03% of the net tangible assets of the Company, it was exempted from all disclosure and shareholders' approval requirements under Section 20.25 of the Listing Rules. The independent non-executive directors are in the opinion that the above transaction was conducted on normal commercial terms during the ordinary and usual course of business, and was in accordance with the underlying agreement, the terms of which are fair and reasonable and in the interests of the shareholders of the Company.
- (b) Project fees received from Alliance of Hong Kong Youth Group and Dongguan Techinfo Information Network Engineering Limited were conducted on normal commercial terms and constituted de minimis transactions under Section 20.23 of the Listing Rules. As such, these transactions were exempted from all disclosure or shareholders' approval requirements.
- (c) During January 1999, the Group acquired an additional 18% interest in 廣州凌壹網絡有限公司, which then became a 63% owned subsidiary of the Group, from Mr. Chan Chi Ming and Ms. Tam Yee Wa, Jojo, directors of the Company, for a consideration of \$500,000. This transaction was based on pre-determined pricing terms and was completed before the initial public offering exercise of the Company in December 1999.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,
LEUNG CHUNG WAN
Chairman

Hong Kong, 28th March, 2000.

Auditors' Report



Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**Auditors' Report to the Shareholders of
ASIAN INFORMATION RESOURCES (HOLDINGS) LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

Auditors' Report



OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December, 1999 and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong, 28th March, 2000.

Financial Summary

(Expressed in Hong Kong dollars)

	1999 \$'000	1998 \$'000	1997 \$'000
Operating results			
Turnover	7,473	8,050	5,903
Cost of services and merchandise sold	(2,734)	(2,137)	(1,420)
Gross profit	4,739	5,913	4,483
Interest income			
– on subscription monies	2,655	–	–
– on bank deposits	475	10	2
Selling expenses	(333)	(71)	(28)
General and administrative expenses	(7,974)	(7,647)	(7,069)
Other operating (expense) income, net	(51)	92	10
Loss from operations	(489)	(1,703)	(2,602)
Finance cost	–	(39)	(90)
Share of loss of associated companies	(14)	(92)	(116)
Loss on reorganisation	(861)	–	–
Loss before taxation	(1,364)	(1,834)	(2,808)
Taxation	(28)	–	–
Loss after taxation but before minority interests	(1,392)	(1,834)	(2,808)
Minority interests	(4)	–	–
Net loss	(1,396)	(1,834)	(2,808)
Assets and liabilities			
Total assets	154,212	2,324	2,582
Net current assets (liabilities)	149,509	(641)	(4,615)
Total liabilities	(2,191)	(6,180)	(6,203)
Net assets (liabilities)	152,017	(3,856)	(3,621)

Notes:

- Pursuant to a group reorganisation scheme ("the Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 1st December, 1999. The summary of consolidated assets and liabilities and results as at and for the years ended 31st December, 1997 and 1998 was prepared as if the current group structure had been in existence as at those dates. Details of the basis of presentation are set out in Note 1 to the accompanying financial statements.
- As the Company has only become the holding company of the Group since 1st December, 1999, no audited consolidated financial statements for the Group had been prepared before 31st December, 1999. The consolidated results of the Group for the years ended 31st December, 1997 and 1998 were extracted from the Company's prospectus dated 7th December, 1999.

Consolidated Income Statement

For the year ended 31st December, 1999
(Expressed in Hong Kong dollars)

	Note	1999 \$'000	1998 \$'000
Turnover	3 & 4	7,473	8,050
Cost of services and merchandise sold		(2,734)	(2,137)
Gross profit		4,739	5,913
Interest income			
– on subscription monies	5	2,655	–
– on bank deposits	5	475	10
Selling expenses		(333)	(71)
General and administrative expenses		(7,974)	(7,647)
Other operating (expense) income, net		(51)	92
Loss from operations		(489)	(1,703)
Finance cost	5	–	(39)
Share of loss of associated companies		(14)	(92)
Loss on reorganisation	7	(861)	–
Loss before taxation	5	(1,364)	(1,834)
Taxation	8	(28)	–
Loss after taxation but before minority interests		(1,392)	(1,834)
Minority interests		(4)	–
Net loss	9	(1,396)	(1,834)
Accumulated loss, beginning of year		(8,313)	(6,479)
Accumulated loss, end of year		(9,709)	(8,313)
Loss per share			
– Basic	10	(0.50 cents)	(0.83 cents)
– Diluted	10	N/A	N/A

A separate statement of recognised gains and losses is not presented because there was no recognised gains and losses other than the net loss for the year.

Balance Sheets

As At 31st December, 1999
(Expressed in Hong Kong dollars)

	Note	Consolidated		Company	
		1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
ASSETS					
Non-current assets					
Fixed assets	11	1,483	477	—	—
Intangible assets	12	40	60	—	—
Investment in subsidiaries	13	—	—	150,146	—
Investment in associated companies	14	489	351	—	—
Long-term investment	15	500	—	—	—
		2,512	888	150,146	—
Current assets					
Accounts receivable		1,189	783	—	—
Prepayments, deposits and other current assets		3,275	344	2,064	—
Due from related companies	3	30	—	—	—
Cash and bank balances		147,206	309	—	—
		151,700	1,436	2,064	—
Total assets		154,212	2,324	152,210	—
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	16	48,000	3,657	48,000	—
Share premium	18	87,706	800	87,706	—
Capital reserve	18	26,020	—	—	—
Contributed surplus	18	—	—	13,882	—
(Accumulated loss) Retained profit	18	(9,709)	(8,313)	2,496	—
		152,017	(3,856)	152,084	—
Non-current liabilities					
Shareholders' loan		—	4,103	—	—
Minority interests					
		4	—	—	—
Current liabilities					
Accounts payable		615	190	92	—
Accruals and other payables		1,081	1,285	—	—
Customer deposits		135	137	—	—
Advanced receipts		298	465	—	—
Due to directors		34	—	34	—
Taxation payable		28	—	—	—
		2,191	2,077	126	—
Total equity and liabilities		154,212	2,324	152,210	—

Approved by the Board of Directors on 28th March, 2000:

LEUNG CHUNG WAN
Director

CHAN CHI MING
Director

Consolidated Statement of Cash Flows

For the year ended 31st December, 1999
(Expressed in Hong Kong dollars)

	Note	1999 \$'000	1998 \$'000
Net cash outflow from operating activities	19.a	(6,317)	(2,218)
Returns on investments and servicing of finance			
Interest received		3,130	10
Interest paid		—	(39)
		3,130	(29)
Taxation		—	—
Investing activities			
Additions of fixed assets		(1,539)	(265)
Increase in investment in associated companies		(400)	—
Increase in amount due from associated companies		(103)	(102)
Payment for 18% additional interest in 廣州凌壹網絡有限公司 (“GZ01”)(Note 7)		(500)	—
Increase in amount due from GZ01		(10)	—
Increase in long-term investment		(500)	—
Increase in amount due from related companies		(30)	—
		(3,082)	(367)
Net cash outflow before financing activities		(6,269)	(2,614)
Financing activities	19.b		
Issue of ordinary shares by the Company		150,000	—
Issue of ordinary shares by a subsidiary		17,000	1,600
Share issuance expenses in relation to the initial public offering of the Company’s shares		(14,494)	—
Share issuance expenses of a subsidiary		(540)	—
Increase in shareholders’ loan		1,200	1,141
		153,166	2,741
Increase in cash and bank balances		146,897	127
Cash and bank balances, beginning of year		309	182
Cash and bank balances, end of year		147,206	309

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Asian Information Resources (Holdings) Limited (“the Company”) was incorporated in the Cayman Islands on 4th October, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company’s shares have been listed on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited (“the Growth Enterprise Market”) since 16th December, 1999.

Pursuant to a group reorganisation scheme (“the Reorganisation”) in preparation for the listing of the Company’s shares on the Growth Enterprise Market, the Company became the holding company of the Group on 1st December, 1999. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting as if the current group structure had been in existence throughout the years ended 31st December 1998 and 1999.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of on-line content information and related technical services, information technology solutions and consultancy services, and e-commerce investment.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together “the Group”). Significant intra-group transactions and balances have been eliminated on consolidation.

b. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company’s financial statements, investment in subsidiaries is stated at cost less provision for impairment in value where considered necessary by the directors, while income from subsidiaries is recorded to the extent of dividends received and receivable.

Goodwill arising on acquisition of a subsidiary, representing the excess of the cost of acquisition over the Group’s share of the fair value of the separable net assets of the subsidiary acquired, is eliminated against reserves in the period of acquisition.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contribution and profit sharing ratios are defined in the joint venture agreements. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group owns more than 50% interests therein and governs and controls the financial and operating policies and the board of directors of the joint ventures.

d. Associated companies

An associated company is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its financial and operating policy decisions. Investment in associated companies is stated at the Group's share of the fair value of the separable net assets of the associated companies at the time of acquisition, plus the Group's share of undistributed post acquisition profits/losses and reserves of the associated companies.

e. Investments

Investments, intended to be held on a long-term basis, are stated at cost less provision for impairment in value where considered necessary by the directors. Income from long-term investments is accounted for to the extent of dividend received or receivable.

The carrying amounts of the investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary. Provisions against the carrying value of the investments are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investments, any profit and loss thereon is accounted in the income statement.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

f. Turnover and revenue recognition

Turnover comprises (i) service income on on-line content information provision as well as related technical services, and internet solutions and consultancy services provision, and (ii) the net invoiced value of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Service income for content provision is recognised on a time-proportion basis for the fixed license fee portion and as entitlement accrues on usage for the variable license fee portion. Service income for technical and consultancy services provision is recognised in accordance with the terms of the underlying contracts and when the underlying services are rendered. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

g. Taxation

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

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

h. Advertising and promotion costs

Costs for advertising and promotion are charged to the income statement in the period in which they are incurred.

i. Content and project development costs

All costs incurred in the development of content database and other consultancy projects and in the provision of internet solutions are charged to the income statement as incurred.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

j. Staff retirement benefits

Costs of staff retirement benefits are charged to the income statement in the relevant period in which they are incurred.

k. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements, furniture and fixtures	20% to 33%
Computers and equipment	33%

Gains or losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

l. Intangible assets

Intangible assets represent acquisition cost to obtain exclusive right to use a specific proprietary database developed by a third party, and are stated at cost and amortised on a straight-line basis over a period of five years. The directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically.

m. Operating leases

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

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

n. Foreign currency translation

Companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies during the period are translated into their respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the income statement of the individual companies.

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

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

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

Balances with related companies were unsecured, non-interest bearing and without pre-determined repayment terms.

Particulars of significant transactions between the Group and related parties during the year were as follows:

	1999 \$'000	1998 \$'000
Project fees received from associated companies	66	—
Project fees received from		
— Alliance of Hong Kong Youth Group (a)	61	28
— Dongguan Techinfo Information Network Engineering Limited (b)	17	—
Acquisition of 18% interest in GZ01 from Mr. Chan Chi Ming and Ms. Tam Yee Wa, Jojo (c)	500	—

Notes:

- a. Mr. Leung Chung Wan, a director of the Company, is also a director of Alliance of Hong Kong Youth Group.
- b. Dongguan Techinfo Information Network Engineering Limited was a 35% owned associated company of the Group up to October 1999. Pursuant to the Reorganisation, the Group transferred its entire interest therein to Asian Dynamics International Limited, the ultimate holding company.
- c. GZ01 was a 45% owned associated company of the Group up to January 1999 when the Group acquired an additional 18% interest therein from Mr. Chan Chi Ming and Ms. Tam Yee Wa, Jojo, directors of the Company, for a consideration of \$500,000 (see Note 7).

In the opinion of the Directors, the above transactions were conducted in the usual course of business under terms as specified in the underlying contracts, except for the acquisition of additional interest in GZ01, which was based on pre-determined pricing terms.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER AND REVENUE

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

	1999 \$'000	1998 \$'000
Content solutions services		
– distribution fees	1,622	1,500
– project fees	2,056	1,786
Internet solutions services	2,189	3,286
Others		
– consultancy project fees	1,461	1,478
– sales of computer accessories	145	–
Total turnover	7,473	8,050
Interest income	3,130	10
Total revenue	10,603	8,060

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

	1999 \$'000	1998 \$'000
After charging –		
Cost of merchandise sold	92	–
Operating lease rentals in respect of rented premises	735	679
Provision for doubtful debt	67	–
Depreciation of fixed assets	533	361
Amortisation of intangible assets	20	20
Interest expense on short term loans	–	39
Staff costs	3,948	3,884
Auditors' remuneration	391	13
After crediting –		
Interest income		
– on subscription monies*	2,655	–
– on bank deposits	475	10

* During the period from 10th December, 1999 to 15th December, 1999, approximately \$2,655,000 interest income was earned on the subscription monies received pursuant to the initial public offering of the Company's shares.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid to the directors of the Company were:

	1999 \$'000	1998 \$'000
Fees for executive directors	—	—
Fees for non-executive directors	78	—
Other emoluments for executive directors		
– Basic salaries and allowances	1,057	1,370
– Contribution to provident fund	8	—
	1,143	1,370

The number of directors whose remuneration fall within the following bands was as follows:

	1999	1998
Executive directors		
– Nil to \$1,000,000	2	3
Non-executive directors		
– Nil to \$1,000,000	7	—
	9	3

The directors received individual emoluments of approximately \$740,000 (1998 - \$650,000), \$112,000 (1998 - 650,000), \$225,000 (1998 - \$70,000), \$12,000 (1998 - Nil), \$12,000 (1998 - Nil), \$12,000 (1998 - Nil), \$10,000 (1998 - Nil), \$10,000 (1998 - Nil) and \$10,000 (1998 - Nil), respectively, during the year ended 31st December, 1999.

No director waived any emoluments. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year ended 31st December, 1999.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	1999 \$'000	1998 \$'000
Basic salaries and allowances	1,680	2,222
Contribution to provident fund	42	39
	1999	1998
Number of directors	2	2
Number of employees	3	3
	5	5

The remuneration of each of the highest paid individual falls within the band of Nil to \$1,000,000 during the year ended 31st December, 1999.

7. LOSS ON REORGANISATION

Loss on reorganisation comprised:

	1999 \$'000	1998 \$'000
Decrease in the Group's net assets on acquisition of 18% interest in GZ01(a)	500	—
Decrease in the Group's share of net assets in a subsidiary (b)	361	—
	861	—

- a. In January 1999, the Group acquired an additional 18% interest in GZ01, which then became a 63% owned subsidiary of the Group. The difference between the consideration paid and the Group's share of net assets of GZ01 after the transaction amounting to approximately \$500,000 is recorded in the consolidated results of the Group as loss on reorganisation.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. LOSS ON REORGANISATION (Cont'd)

- b. In February 1999, as part of the Group's plan to streamline its operations in Mainland China, the Group disposed of its entire interest in GZ01, a company incorporated in Mainland China in which the Group had 63% beneficial interest, to the then minority shareholders of GZ01. In return, the Group, together with GZ01 (which then became unrelated to the Group), established Guangzhou AIR Network Company Limited ("GZAIR"), a sino-foreign equity joint venture incorporated in Mainland China, and GZ01 transferred certain of its assets and liabilities and its operations to GZAIR. As a result of such reorganisation, the Group's share in net assets of GZAIR (being the successor of GZ01) was decreased by approximately \$361,000, which was recorded in the consolidated results of the Group as loss on reorganisation.

8. TAXATION

	1999 \$'000	1998 \$'000
Hong Kong profits tax	—	—
Mainland Chinese enterprise income tax	28	—
	28	—

Hong Kong profits tax has been provided at the rate of 16% (1998 - 16%) on the estimated assessable profit for the year. Mainland Chinese enterprise income tax for GZAIR and the Beijing representative office of Asian Information Resources Limited have been provided at the rate of 33% on the estimated assessable profit for the year.

There was no material unprovided deferred taxation as at 31st December, 1999.

9. NET LOSS

The net loss in the consolidated income statement included a profit of approximately \$2,496,000 (1998 - Nil) dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 1999 was based on the net loss of approximately \$1,396,000 (1998 - \$1,834,000) and the weighted average of approximately 279,024,000 (1998 - 221,993,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31st December, 1999 was not presented because there was no dilutive potential ordinary shares in existence during the financial year.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. FIXED ASSETS

Movements of consolidated fixed assets were:

	1999			1998
	Leasehold improvements, furniture and fixtures \$'000	Computers and equipment \$'000	Total \$'000	Total \$'000
Cost				
Beginning of year	485	1,046	1,531	1,266
Additions	799	740	1,539	265
End of year	1,284	1,786	3,070	1,531
Accumulated depreciation				
Beginning of year	204	850	1,054	693
Provision for the year	182	351	533	361
End of year	386	1,201	1,587	1,054
Net book value				
End of year	898	585	1,483	477
Beginning of year	281	196	477	573

12. INTANGIBLE ASSETS

Intangible assets represented acquisition cost to obtain exclusive right to use a specific proprietary database developed by a third party. Movements of consolidated intangible assets were:

	1999 \$'000	1998 \$'000
Cost	100	100
Less: Accumulated amortisation	(60)	(40)
	40	60

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT IN SUBSIDIARIES

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

	1999 \$'000	1998 \$'000
Unlisted shares	14,082	—
Due from subsidiaries	136,064	—
	150,146	—

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

The Directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value as at 31st December, 1999.

Details of the subsidiaries as at 31st December, 1999 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Asian Information Resources (BVI) Limited ("AIR(BVI)")	British Virgin Islands	US\$ 200	100%	Investment holding
Asian Information Resources International Limited	British Virgin Islands	US\$ 1	100%	Holding of trademarks
Asian Information Resources Limited ("AIRL")	Hong Kong	\$11,228,290	100%	Provision of on-line content information and related technical services, information technology solutions and consultancy services, and e-commerce investment
Guangzhou AIR Network Company Limited ("GZAIR") (b&c)	Mainland China	(b)	80%	Provision of information and data processing services

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT IN SUBSIDIARIES (Cont'd)

Notes—

- a. AIR(BVI) is directly held by the Company, while all other subsidiaries are indirectly held.
- b. GZAIR is an equity joint venture established in Mainland China for a term of 20 years up to February 2019. Upon establishment, the Group owned 63% of the joint venture. On 6th October, 1999, the Group acquired an additional 17% interest in the joint venture. According to the joint venture agreement, the Group and the joint venture partner were to make capital contributions of RMB400,000 and RMB100,000 respectively (equivalent to approximately \$377,000 and \$94,000 respectively) within 12 months from 13th February, 1999. As at 31st December, 1999, the Group has made partial contribution amounting to RMB315,000 (equivalent to approximately \$296,000).
- c. Prior to the establishment of GZAIR in February 1999, the information and data processing operations were carried on by GZ01, a limited liability company established in Mainland China on 12th March, 1997 to be operated for 2 years and in which the Group had a 45% interest upon establishment. On 26th March, 1998, GZ01 obtained a new business license to operate for 5 years up to April 2003. In January 1999, the Group acquired an additional 18% interest in GZ01, which then became a 63% owned subsidiary of the Group. Pursuant to an agreement made in February 1999 between the Group and the Chinese party of GZ01, the Group transferred its 63% interest in GZ01 to the Chinese party. In return, GZ01 (then an unrelated party to the Group) and the Group established GZAIR, which was 63% owned by the Group and 37% owned by GZ01.

14. INVESTMENT IN ASSOCIATED COMPANIES

Investment in associated companies comprised:

	1999 \$'000	1998 \$'000
Unlisted shares, at cost	400	215
Share of undistributed post-acquisition loss*	(14)	(324)
	386	(109)
Due from associated companies	103	460
	489	351

The Directors are of the opinion that the underlying value of the associated companies is not less than the carrying value as at 31st December, 1999.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN ASSOCIATED COMPANIES (Cont'd)

Details of the associated companies as at 31st December, 1999 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Oriental Cultural Resources Limited ("OCRL")	Hong Kong	\$500,000	40%	Operation of an e-commerce platform for Chinese collections transactions
China VC Net Limited ("CVCNL")	Hong Kong	\$500,000	40%	Operation of a website for matching venture capital with projects to be financed

All associated companies are held indirectly by the Company.

* The share of undistributed post-acquisition loss for the year ended 31st December, 1999 represented the Group's share of loss incurred by OCRL and CVCNL during the year, whereas the amount for the year ended 31st December, 1998 represented the aggregate share of loss incurred by GZ01, a 45% associated company of the Group up to January 1999, when the Group acquired an additional 18% interest therein. Please refer to Note 13.c for details.

15. LONG-TERM INVESTMENT

Long-term investment represented the Group's share of contribution to a company, of which the Group has 12.5% equity interest therein, for the development of certain e-commerce operations.

The Directors are of the opinion that the underlying value of the long-term investment is not less than the carrying value as at 31st December, 1999.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. SHARE CAPITAL

	Number of shares '000	Nominal value \$'000
Authorised (ordinary shares of \$0.10 each)		
Incorporation of the Company (a)	1,000	100
The Reorganisation referred to in Note 1 (b)	1,000	100
Increase in authorised ordinary share capital in preparation for the public offering of the Company's shares (c)	1,998,000	199,800
End of year	2,000,000	200,000
Issued and fully paid (ordinary shares of \$0.10 each)		
Issue of shares (a)	1,000	100
Issue of shares arising from the Reorganisation referred to in Note 1 (b)	1,000	100
Issue of shares through public offering (d)	120,000	12,000
Capitalisation of share premium (e)	358,000	35,800
End of year	480,000	48,000

- a. On 4th October, 1999, the Company was incorporated with an authorised share capital of \$100,000 divided into 1,000,000 shares of \$0.10 each. On 5th October, 1999, one share was issued for cash at par. On 1st December, 1999, the remaining 999,999 shares were issued and credited as fully paid at par, nil paid.
- b. Pursuant to a resolution of all the shareholders of the Company passed on 1st December, 1999, the authorised share capital of the Company was increased from \$100,000 to \$200,000 by the creation of additional 1,000,000 shares ranking pari passu with the existing shares in all respects. On the same date, the additional 1,000,000 shares were issued and credited as fully paid, in consideration and in exchange for the entire issued share capital of AIR(BVI).
- c. Pursuant to a resolution of all the shareholders of the Company passed on 2nd December, 1999, the authorised share capital of the Company was increased from \$200,000 to \$200,000,000 by the creation of additional 1,998,000,000 shares ranking pari passu with the existing shares in all respect.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. SHARE CAPITAL *(Cont'd)*

- d. On 14th December, 1999, 120,000,000 shares of \$0.10 each were issued at \$1.25 per share through a public offering ("the New Issue"), resulting in total proceeds of \$150,000,000. The proceeds of the New Issue were used for financing the Group's expansion plans and for providing the Group with additional working capital.
- e. Immediately after the New Issue, share premium of \$35,800,000 was capitalised for the issuance of 358,000,000 shares of \$0.10 each on pro-rata basis to the Company's shareholders before the New Issue.
- f. The comparative figure of the Company's share capital as at 31st December, 1998 shown on the consolidated balance sheet represented the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

17. SHARE OPTIONS

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose (i) shares issued on exercise of options; and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date the share option scheme is adopted. The subscription price will be determined by a duly authorised committee of the board of directors which includes all the independent non-executive directors from time to time of the Company. The subscription price will not be less than the average of the closing prices of the shares quoted on the Growth Enterprise Market for the five trading days immediately preceding the date of offer of the options or the closing price of the shares on the Growth Enterprise Market on the date of offer of the options, whichever is the higher, provided that the subscription price should not be lower than the par or nominal value of the shares. As at 31st December, 1999, no option has been granted under the share option scheme.

On 25th January, 2000, 3,092,000 share options were granted to certain executive directors and employees of the Group under the Company's share option scheme. The options are exercisable at \$0.89 per share at any time prior to 24th January, 2003.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. RESERVES

Movements of reserves were:

	Share premium \$'000	Capital reserve (a) \$'000	Contributed surplus (b) \$'000	Accumulated loss \$'000	Total \$'000
Consolidated					
Balance as at 31st December, 1997	—	—	—	(6,479)	(6,479)
Premium on issue of ordinary shares	800	—	—	—	800
Loss for the year	—	—	—	(1,834)	(1,834)
Balance as at 31st December, 1998	800	—	—	(8,313)	(7,513)
Premium on issue of ordinary shares	138,000	—	—	—	138,000
Share issuance expenses	(14,494)	—	—	—	(14,494)
Capitalisation of share premium	(35,800)	—	—	—	(35,800)
Capital reserve from the Reorganisation (Note 1)	—	25,220	—	—	25,220
Share premium of a subsidiary transferred to capital reserve upon the Reorganisation (c)	(800)	800	—	—	—
Loss for the year	—	—	—	(1,396)	(1,396)
Balance as at 31st December, 1999	87,706	26,020	—	(9,709)	104,017
Company					
Balance as at 31st December, 1997 and 1998	—	—	—	—	—
Premium on issue of ordinary shares	138,000	—	—	—	138,000
Share issuance expenses	(14,494)	—	—	—	(14,494)
Capitalisation of share premium	(35,800)	—	—	—	(35,800)
Contributed surplus from the Reorganisation (Note 1)	—	—	13,882	—	13,882
Profit for the year	—	—	—	2,496	2,496
Balance as at 31st December, 1999	87,706	—	13,882	2,496	104,084

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. RESERVES (Cont'd)

- a. The capital reserve of the Group represented the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.
- b. The contributed surplus of the Company represented the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.
- c. The share premium transferred to capital reserve represented the share premium of a subsidiary as at 31st December, 1998 acquired by the Company through an exchange of shares pursuant to the Reorganisation.

As at 31st December, 1999, the Company's reserve available for distribution to shareholders amounted to approximately \$104,084,000 computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium and contributed surplus of approximately \$87,706,000 and 13,882,000, respectively, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business, and retained profit of approximately \$2,496,000.

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- a. Reconciliation of loss from operations to net cash outflow from operating activities:

	1999 \$'000	1998 \$'000
Loss from operations	(489)	(1,703)
Interest income	(3,130)	(10)
Depreciation of fixed assets	533	361
Amortisation of intangible assets	20	20
(Increase) Decrease in accounts receivable	(406)	370
Increase in prepayments, deposits and other current assets	(2,931)	(91)
Increase in accounts payable	425	18
Decrease in accruals and other payables	(204)	(193)
Decrease in customers deposits	(2)	(1,365)
(Decrease) Increase in advanced receipts	(167)	375
Increase in due to directors	34	—
Net cash outflow from operating activities	(6,317)	(2,218)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

b. Analysis of changes in financing was as follows:

	Share capital and share premium \$'000	Capital reserve \$'000	Total \$'000
Balance as at 31st December, 1997	2,857	—	2,857
Issue of ordinary shares	1,600	—	1,600
Balance as at 31st December, 1998	4,457	—	4,457
Issue of ordinary shares in the public offering	150,000	—	150,000
Share issuance expenses in relation to the public offering of the Company's shares	(14,494)	—	(14,494)
Share exchange upon the Reorganisation	200	(200)	—
Share capital and share premium of a subsidiary transferred to capital reserve upon the Reorganisation (see Note 18.c)	(4,457)	4,457	—
Issue of ordinary shares by a subsidiary	—	17,000	17,000
Share issuance expenses of a subsidiary	—	(540)	(540)
Capitalisation of shareholder's loan	—	5,303	5,303
Balance as at 31st December, 1999	135,706	26,020	161,726

c. Major non-cash transactions:

During the year, the Company issued approximately 2,000,000 ordinary shares of \$0.10 each to the then shareholders of AIR(BVI) in exchange for its entire issued share capital.

During the year, shareholder's loan of AIRL of approximately \$5,303,000 was capitalised as share capital by the issuance of approximately 5,303,000 ordinary shares of AIRL of \$1 each to the then shareholder of AIRL.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. COMMITMENTS

a. Capital commitments

During the year, a subsidiary company has entered into an agreement to make equity contribution into a company, in which the Group has 12.5% equity interest, for the development of e-commerce operations (see also Note 15). As at 31st December, 1999, the amount of outstanding capital to be contributed approximated \$500,000 (all of which were authorised and contracted for, but not provided for in the financial statements).

b. Operating lease commitments

As at 31st December, 1999, the Group had aggregate outstanding operating lease commitments of approximately \$1,470,000 (1998 - \$770,000) in respect of rented premises under various non-cancellable operating lease agreements extending to October 2001. The amount of commitments payable within the next twelve months was analysed as follows:

	Consolidated		Company	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Leases expiring				
– within one year	417	770	–	–
– within two to five years	575	–	–	–
	992	770	–	–

21. PENSION SCHEME

The Group has arranged for its Hong Kong employees a defined contribution provident fund, which is managed by an independent trustee. Each of the Group and its Hong Kong employees makes monthly contributions to the scheme with an amount of 5% of the employees' basic salaries. The Hong Kong employees are entitled to receive their entire contribution and the accrued interest thereon; and 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of between 10% to 90% after completing one to nine years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. For the year ended 31st December, 1999, the aggregate amount of employer's contribution made by the Group was approximately \$26,000 (1998 - \$19,000), after deduction of forfeited contributions of approximately \$93,000 (1998 - \$101,000).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. PENSION SCHEME *(Cont'd)*

As stipulated by the rules and regulations in Mainland China, GZAIR is required to contribute to a state-sponsored retirement plan for its employees in Mainland China. According to the rules prevailing in Guangzhou, the Group is required to contribute approximately 11% of the basic salary of its employees in Mainland China, and has no further obligations for the actual pension payments or post-retirement benefits. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. During the period from 13th February, 1999 (date of incorporation of GZAIR) to 31st December, 1999, approximately \$1,000 had been paid by GZAIR with respect to such retirement plan.

22. SUBSEQUENT EVENTS

On 25th January, 2000, 3,092,000 share options were granted to certain executive directors and employees of the Group under the Company's share option scheme (see Note 17). The options are exercisable at \$0.89 per share at any time prior to 24th January, 2003.

23. ULTIMATE HOLDING COMPANY

The Directors consider Asian Dynamics International Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.