ANNUAL REPORT 2001

Cyber
日報
www.hkcyber.com

hkcyber.com (Holdings) Limited

Cyber日報(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this report.

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

CONTENTS

Executive Directors	Wong Yuk Man Leung Wai Man, Sunny Lai King Yan, Anthony Choi Wing Kin
Non-executive Directors	Shiu, Stephen Junior Leung Ge On, Andy Lo Lin Shing, Simon Wu Wing Kin
Independent Non-executive Directors	Li Ka Cheung, Eric Cheung Yan Leung, Stephen Ng Wai Hung Cheung Hon Kit
Registered office	P.O. Box 2861GT, Zephyr House George Town Grand Cayman British West Indies
Head office and principal place of business	41st Floor, MLC Tower 248 Queen's Road East Wan Chai Hong Kong
Website address	*www.hkcyber.com*
Company secretary	Li Man Fai, AHKSA, ACCA
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	Central Registration Hong Kong Limited Rooms 1901-1905 19th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Standard Chartered Bank 9th Floor, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong Sin Hua Bank Ground Floor, 210 Des Voeux Road Central Hong Kong

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of hkcyber.com (Holdings) Limited (the "Company") will be held at 41st Floor, MLC Tower, 248 Queen's Road East, Wanchai, Hong Kong on 23 July 2001 at 4:00 p.m. for the following purposes:

1. to receive and consider the audited consolidated financial statements of the Company and the reports of the directors of the Company (the "Directors") and auditors for the year ended 31 March 2001;

2. to re-elect the Directors and to authorise the board of Directors (the "Board") to fix their remuneration;

3. to re-appoint auditors of the Company and to authorise the Board to fix their remuneration;

4. to consider as special business, and if thought fit, pass with or without amendments the following resolutions as ordinary resolution:

   "**THAT**:

   (A) subject to paragraph (C) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") on The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

   (B) the approval in paragraph (A) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or 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) and issued by the Directors of the Company pursuant to the approval in paragraph (A) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any options granted under the share option schemes adopted by 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 of the Company pursuant to the Articles of Association of the Company from time to time shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company on the date of the passing this resolutions, and the said approval shall be limited accordingly; and

(D) for the purposes of this resolution, "Relevant Period" means the period from the date of 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 or any applicable law to be held; and

(iii) the revocation or vacation of the authority given under this resolution by an ordinary resolution of the shareholders in the general meeting;

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

5. To consider as special business, and if thought fit, pass with or without amendments the following resolutions as ordinary resolution:

"THAT"

(A) Subject to paragraph (B) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in Resolution 4(D) set out in the notice of this meeting) of all the powers of the Company to repurchase its issued shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved; and

(B) the aggregate nominal amount of shares of the Company which are authorised to be repurchased by the Company pursuant to the approval in paragraph (A) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this resolution, and the said approval shall be limited accordingly."

6. To consider as special business, and if thought fit, pass with or without amendments the following resolutions as ordinary resolution:

   "**THAT**" conditional upon the passing of resolution No.5, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares of the Company pursuant to resolution No. 4 be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution No. 5, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this resolution."

By Order of the Board
Lai King Yan, Anthony
Executive Director

Hong Kong, 27 June 2001

Principal office in Hong Kong
41/F MLC Tower, 248 Queen's Road East, Wanchai, Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, vote in his stead. A proxy need not be a member of the Company.

2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the principal office of the Company at 41st Floor, MLC Tower, 248 Queen's Road East, Wanchai, Hong Kong not less that 48 hours before the time for holding the meeting or adjourned meeting.

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 GEM Listing Rules. 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 Pre-IPO Share Options granted 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 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 GEM Listing Rules will be set out in a separate document to be dispatched to the shareholders with the annual report for the year ended 31 March, 2001.

RESULTS

The Group was established in 1999, experiencing a development stage which involved substantial investment on infrastructure, professional talents and brand awareness campaigns. During the year under review, the Group reported a turnover of HK$11,396,022. During its first year of operation, the Group recorded a loss attributable to shareholders amounting to HK$87,274,411. Basic loss per share was 7.12 HK cents.

DIVIDEND

The Board has decided not to recommend the payment of a final dividend for the year ended 31 March 2001 in order to reserve financial resources for future business development.

BUSINESS REVIEW

hkcyber.com is poised to play a leading role among the Chinese content providers as well as providing comprehensive and updated content through attractive web design and interactive features. The Group was successfully listed on the GEM on 31 July 2000. The listing exercise marks a new chapter for the Group since its establishment in February 1999. With the funds raised, the Group has sufficient financial resources to accomplish its company mission to provide multimedia and interactive content as well as to offer customers total solutions for on-line marketing which range from website and store-front design, technical support and the formulation of marketing and communication packages.

In view of the increasing popularity of the internet, viewers are looking for instant and easy access to information channels. Accurate and expeditious information such as news, finance, leisure and sports etc will become a basic necessity in our daily lives. The Group aims to capitalise on the internet boom through the provision of informative, interesting and interactive information to the global Chinese market.

However, the internet related industry is confronting with keen competition from the blossoming of a number of industry players. As a result, the market underwent a period of consolidation and many marginal firms ceased operations. Despite the poor operating environment in the year under review, the Group is still optimistic about the huge market potential in the Asian internet market, especially among overseas Chinese who can access on the spot information via the internet.

BUSINESS REVIEW *(Continued)*

Content Development

The content provided by hkcyber.com is categorised into topics, namely news, commentary, entertainment, racing, sports, finance, fortune, food, chatroom, property and Cyber bookshop. Currently the Group is hosting 11 channels and 7 portals which provide comprehensive coverage of events and the hottest topics in town. Live programmes range from news and talk shows to leisure and lifestyle, broadcast from morning to mid-night every day.

hkcyber.com received the "Best AV Site" award, the "10 Best Local Web Site" award and the "Hong Kong eAward: Design & Innovative Award" from Commercial Radio Hong Kong, Webmasters (Hong Kong) Association Limited and the Hong Kong Productivity Council in 2000. These awards reaffirm the Group's commitment in website design and content provision.

Providing updated information and interesting content are the primary focuses of hkcyber.com. The introduction of on-line games under "Skygames" and the broadcasting of movies through the "Cyber Movie" portal are value added products which demonstrate the Group's efforts to enrich its content with reference to viewers' preferences. Leveraging its strong capability in content provision, the Group is able to generate content which is updated regularly with its own in house capabilities.

Most of the programmes are produced by the Group's in house content team. It is one of the Group's strategies to invite celebrities or authoritative figures in their respective fields to host the relevant web pages or live programmes.

Building upon its extensive coverage, the Group has always maintained a solid viewer base with average hit rates of 9 million and page views of 3 million per day for the year ended 31 March 2001.

Technical Development

The Group has invested HK$69 million on infrastructure which is necessary to maintain and enhance the content and services provided by the Group. With sufficient technical back up in terms of computer hardware and software and technical talent, the Group is able to handle the ever-increasing traffic.

With over 100 servers, storage capacity has been enlarged to support content development and content provision to viewers and corporate clients. The Group is able to handle large scale web mail with 100MB for 100,000 members per day.

BUSINESS REVIEW *(Continued)*

Brand Building

The vision and commitment within the internet industry has motivated the Group to devote massive resources to create brand awareness in the early stages of entry. For the year ended 31 March 2001, the Group invested HK$16 million on brand building in order to raise brand recognition in this highly competitive industry.

During the year under review, the Group has sponsored the Ocean Park Conservation Foundation Charity Ball, Skyauction roadshow and the CyberDaily Oscar Golf League. The intensive marketing and promotional campaigns have successfully gained the group a reputation for innovation among viewers and corporate clients.

As overseas viewers treasure real-time news and information in Chinese, the Group conducted roadshows in San Francisco, Los Angeles, New York, Taiwan and Singapore in July 2000 to promote the company's profile and build the strength of its brand in the global Chinese market.

The Group has continued advertising in selective media to gain maximum benefits as well as to complement its business development. In November, it organised a history quiz on the East Zhou Dynasty, aiming to boost the viewing rate of "Cyber TV". The series marketing events have successfully raised the recognition of hkcyber.com.

E-Commerce and Services Development

Taking advantage of established brand recognition and the increasing number of viewers, the Group launched its e-Mall in July 2000. As a result of parallel expansion strategies, the launch also serves the purpose of enriching content, providing comprehensive services and creating an additional revenue stream for the Group.

For the year ended 31 March 2001, the Group established an e-Mall which has received an overwhelming response. The virtual e-Mall provides a wide selection of jewellery, health food and on-line games. Given the substantial growth of the internet in our daily lives, the Group expects that more and more operators will be attracted to the e-Mall which has unlimited and exciting choices for hkcyber.com's viewers.

The Group's information technology team has successfully developed corporate websites for corporate clients such as NEC Hong Kong Ltd. and Global Textiles Ltd. during the year under review.

In addition to the corporate website, a wedding website was constructed and launched in November for brides and bridegrooms to share their happiness and joyful memories with their friends and relatives.

BUSINESS REVIEW *(Continued)*

Advertising

Advertising is one of the most effective ways to promote goods and service to a target group. At hkcyber.com, viewers are exposed to interesting and interactive advertisements in the form of banner advertisements, button advertisements and sponsorship or co-branded advertisements and full-screen advertisements. The internet offers unique promotional means in comparison to traditional advertising channels which only have plain text and still photos.

Complementing the e-Mall and advertising business, the Group also provides one-stop services to merchants and advertisers, including design, technical support on hardware and software and the formulation of marketing strategies. With useful information and statistics generated from viewers, the Group is able to assist merchants and advertisers in preparing tailor-made marketing and communication solutions which perfectly match the needs of their target audience. The e-marketing team of the Group works closely with merchants and advertisers to enhance the effectiveness of their marketing campaigns.

For the year ended 31 March 2001, the Group generated stable revenue from this business. Prominent clients include Cable & Wireless HKT IMS Ltd., Smartone Mobile Communications Ltd. and Hewlett Packard Hong Kong Limited. The Group also carried out promotional campaigns for Citibank International, Legend Expert Systems Ltd. and Xin Khaung Restaurant during the year under review.

Content Licensing

The Group licenses its content to WAP users who are registered under Hutchison's mobile phone network since May 2000. WAP users can access information such as news and entertainment. The exclusive information provided to Hutchison's WAP users further attracts and retains a loyal viewer base for the Group. The Group also licenses its live programmes to other content providers including iTV Broadcasting and i-care.

In pursuing excellence in production, the Group has invested substantially in advanced equipment to strengthen the capability of its audio and video team. Encouraged by the continuous inflow of licensing contracts during the review period, the Group expects to capture many opportunities in this burgeoning market.

PROSPECTS

In keeping with the explosive growth of e-commerce and use of the internet as a basic tool, the Group is committed to positioning itself as a leading Chinese content provider. To fully capture the benefits of its established brand awareness, the Group is committed to further enriching its content to include more diverse and prompt news and information in the year to come.

To further sharpen its competitive strengths, the Group will adopt stringent cost controlling measures that will ensure maximum benefits to the Group. Capitalising on existing brand recognition, the Group will focus on selected promotional channels campaigns for its target audiences which will ensure maximum benefits in accordance to the Group's marketing needs.

In addition, the Group will continue the streamline processes and reduce superfluous hardware to enhance operational efficiencies as well as reducing operating overheads. The financial position can thus be further strengthened.

With the increasing trend around the world to connect to the internet, the Group is ready to set up mirror site in Canada which has large Chinese speaking audiences. The set up of mirror site will enable the Group to provide its rich content and services to overseas viewers both in a quality and timely manner.

In view of the increasing demand for quality content from overseas viewers, the Group plans to charge a monthly subscription fee from overseas viewers. The Directors believe that overseas viewers are willing to pay for Chinese language content which provide convenient access and real time reports.

It is extremely encouraging that the SAR Government is granting the legal status to on-line content providers for the publishing of legal announcement advertisements on the web. This demonstrates recognition of the development and the advantages of the internet which can broadcast public information so promptly. The Group is pleased to be one of the first on-line content providers to obtain this right. This is not only because the grant recognises the popularity of hkcyber.com, but also because it creates a revenue stream for the Group.

Looking into future, the Group will realise its vision to provide comprehensive local and international content covering informative, interesting and interactive topics to the global Chinese market. In order to fully utilise the resources and expand the revenue base, the Directors are considering to expand its business scope to the publishing of newspaper. With these strategies in place, the Group is optimistic of its business future development and its well-positioned abilities to capture the opportunities ahead.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In accordance with the business objectives as laid down in the IPO prospectus dated 21 July 2000, below is a progress report.

Business objectives as set out in the Prospectus	Actual business progress in respect of the year ended 31 March 2001
Increase traffic	
Launch a vertical portal on travel to increase the attractiveness of the portal.	The travel portal was launched in mid August 2000. However, the Group has decided to concentrate its resources on existing channels and the travel portal was closed down in October 2000.
Provide news content for WAP phone users.	According to the agreement with Hutchison Telephone Company Limited of 29 May 2000, the Group provides content in wireless markup language format that is accessible to Hutchison's WAP gateway. The Group provides Hutchison's WAP gateway with content including news, current affairs, horse racing and sports information.
On-line broadcast of the National Day celebrations, festive functions at Christmas, the New Year countdown and the fireworks display at Chinese New Year, to generate additional traffic from these special events.	In the opinion of the management, on-line broadcast of the National Day celebrations will not significantly increase the Group's pageviews as the Group's news portal has sufficient coverage of such events. Instead, it established an on-line broadcast of Legislative Council Elections at the Convention Centre, running continuously for 15 hours on 10 September 2000.

Business objectives as set out in the Prospectus *(Continued)*	**Actual business progress in respect of the year ended 31 March 2001** *(Continued)*
Increase traffic (Continued)	
Enhance existing content through the strengthening of the Group's content team by recruiting experienced staff and through strategic alliances and acquisitions.	As at 31 March 2001, the Group employs 234 staff. The Directors consider that the existing workforce is sufficient to maintain the daily operations. On 11 October 2000, the Group entered a joint venture agreement with Show8 Cyber Media Limited for the operation of the website "www.Show8.com". This new website provides information on entertainment and leisure, which is different from the Group's existing entertainment and leisure content provided at "yulok.hkcyber.com".
Increase brand strength	
Roadshows in North America and Australia to promote its comprehensive website to create brand awareness among the Chinese communities overseas.	To promote the brandname overseas, the Group conducted roadshows in San Francisco, Los Angeles, New York, Taiwan and Singapore in July 2000.
Continue advertising through different and effective media such as billboards and outdoor electronic displays and outdoor events.	To arouse public awareness of hkcyber.com, the Group run promotions to its target audience through cost-effective media channels including TV and newspapers.
Commence promoting the Group's ability to provide total e-marketing solutions.	The Group continued to promote its ability as an e-marketing solutions provider by joint promotion campaigns, interactive advertising, internet strategy formulation and technical support to e-marketing clients.

Business objectives as set out in the Prospectus *(Continued)*	**Actual business progress in respect of the year ended 31 March 2001** *(Continued)*
Increase revenue	
Introduce interactive and full-screen advertisements.	Interactive and full-screen advertisements generated advertising revenue for the Group since April 2000. The Group's advertising clients included Carlsberg, Siemens, Xin Khaung Restaurant and Hewlett Packard.
Charge viewers on access to certain content such as horse racing tips and fortune telling.	The Group plans to charge viewers for access to certain contents.
Launch e-Mall	Since September 2000, e-Mall has been set up to provide virtual shopping mall for viewers to purchase consumer products on the internet.
Strengthen the Group's e-marketing team by recruiting experienced staff and sourcing advertisers and merchants for its services.	Currently the e-marketing team consists of 19 staff. The Group has successfully retained clients such as Hewlett Packard, Xin Khaung Restaurant, Carlsberg and Siemens during the year under review.
Charge WAP users on access to the Group's content.	The Group has postponed charging Hutchison's WAP users for access to the Group's content due to a revision in the charging formula. The Group has the rights to recover the content provision income upon finalisation of the agreement.
Introduce advertising during live shows.	The Group has been delivering advertisements at the beginning and during breaks of live shows, which were launched in June 2000.
Increase revenue from the licensing of the Group's multimedia programmes to local and overseas television stations.	The Group has generated revenue from the licensing of Macau horse racing live broadcasting programmes and interview programmes at the news portal. Additionally, the Group has licensed "Three Lions' Show" to Cable & Wireless HKT IMS.

Business objectives as set out in the Prospectus *(Continued)*	Actual business progress in respect of the year ended 31 March 2001 *(Continued)*
Improvement of infrastructure	
Set up mirror sites in Taiwan, Beijing in the PRC and MAE-west and east, providing faster and quality access to overseas viewers.	The Group is planning to set up its mirror site in Canada for the provision of faster and quality access to the Group's content to overseas viewers. The mirror site is expected to be set up in the second half of the calendar year.
Develop a global network infrastructure.	The Group is negotiating with overseas media for forming strategic alliances to deliver the Group's content. No agreement has yet been reached for the year ended 31 March 2001. The Group continues to seek partnership opportunities with other media.
Purchase of hardware and software for e-commerce.	The Group considers the existing hardware and software are sufficient to maintain its daily operation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group raised net proceeds of approximately HK$156 million from the placing of Shares and listing of the Shares on GEM on 31 July 2000. The Group will apply the net proceeds as stated in the prospectus.

With the funds raised, HK$54 million has been invested in the purchase of software and hardware for the development of e-commerce. HK$49.5 million was spent on the improvement in network infrastructure. HK$13.5 million was used for brand building by conducting roadshows in overseas and other brand building activities.

The remaining net proceeds of HK$39 million have been placed with licensed banks in Hong Kong for future use as identified by the Group's business plans as stated in the prospectus.

The Group generally finances its operations with internally generated cash flow. As at 31 March 2001, the Group had cash and bank balances amounting to a total of approximately HK$39 million. The Group had bank overdraft of approximately HK$0.2 million only as at 31 March 2001. With the above resources and the proceeds from the placing of the Shares, the Directors consider that the Group has sufficient capital resources to finance its business activities.

APPRECIATION

The Directors value staff as an important resource for driving its business growth. The Group currently employs 234 staff in Hong Kong. During the year under review, the Group has not encountered any difficulties in recruiting and retaining experienced personnel. The Group has maintained harmonious relationships during the review year. It remunerates staff based on experience, performance and industrial factors.

Finally we would like to take this opportunity to express our gratitude to our management and staff for their dedication and loyalty. In addition, we would like to deliver our sincere thanks to our shareholders, business associates, viewers and clients for their continuous support. We are committed to strengthening our position and further accelerating our business growth.

By Order of the Board
Lai King Yan, Anthony
Executive Director

27 June 2001

EXECUTIVE DIRECTORS

Mr. Wong Yuk Man, aged 50, is the Chairman of the Company. He joined the Group in April 1999 and is responsible for the overall direction and corporate strategy of the Group. He has more than 31 years of experience in the mass media industry. Mr. Wong graduated from Chu Hai College in 1981 with a master degree in arts and was a professor at the Department of Journalism and Communication at Chu Hai College between 1988 and 1992.

Mr. Leung Wai Man, Sunny, aged 37, is the founder of the Group. He is currently the Chief Technology Officer of the Group. Mr. Leung is responsible for the system development and implementation. Prior to the founding of the Group, Mr. Leung worked for AWT Holdings Limited, a Hong Kong listed company, responsible for the implementation of its IT projects. He has more than 11 years of experience in web development and networking.

Mr. Lai King Yan, Anthony, aged 28, is the Chief Operation Officer of the Group. Mr. Lai is responsible for the overall operation and administrative management of the Group. Mr. Lai graduated from Bond University, Australia, in 1996 with a bachelor degree in commerce with a major in accounting. Prior to joining the Group in September 1999, Mr. Lai worked as an auditor in an accounting firm in Hong Kong. Mr. Lai has five years of experience in auditing and accounting.

Mr. Choi Wing Kin, aged 39, is the founder and chief executive officer of Cyber On-air Limited. He is also the vice president of New World CyberBase Limited. Mr. Choi obtained a Bachelor of Science degree in electronics & computer science at the Chinese University of Hong Kong and various professional qualifications included being a professional chartered engineer of The Engineering Council (UK), a member of The Institution of Engineers (Australia), and a member of The Institution of Electrical Engineers (UK). He is also an executive director of Companion Building Material International Holdings Limited and Skynet (International Group) Holdings Limited.

NON-EXECUTIVE DIRECTORS

Mr. Shiu, Stephen Junior, aged 26, joined the Group in September 1999. He is the senior marketing and project co-ordinator of Skynet (International Group) Holdings Limited which is a listed company in Hong Kong. He has over six years of experience in marketing and project coordination.

Mr. Leung Ge On, Andy, aged 32, joined the Group in September 1999. He is the managing director of Skynet with major responsibility in its IT networking and marketing. He holds a bachelor degree of arts in economics from York University, Canada. Mr. Leung has over nine years of experience in management and operation.

Mr. Lo Lin Shing, Simon, aged 45, joined the Group in May 2001, Mr. Lo is the chairman of Asia Logistics Technologies Limited. Mr. Lo is also the deputy chairman of Tai Fook Securities Group Limited and New World CyberBase Limited. He is an executive director of Asean Resources Holdings Limited, The Kwong Sang Hong International Limited and Pacific Ports Company Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a non-executive director of Beijing Beida Jade Bird Universal Sci-Tech Company Limited, a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Lo holds a Bachelor of Business Administration degree. He possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of the CME and IMM since 1986.

Mr. Wu Wing Kin, aged 45, has more than 20 years of working experience in the financial, securities and futures industries. Currently, Mr. Wu is the chief executive of V Six Securities Limited and an executive director of Asia Logistics Technologies Limited. He is also a non-executive director of Companion Building Material International Holdings Limited and Skynet (International Group) Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Ka Cheung, Eric, aged 47, B.A. (Econ) Hon., FHKSA, FCA, FCIS, OBE, JP. Mr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Ltd., The Kowloon Motor Bus Holdings Ltd., Wong's International (Holdings) Ltd., CATIC International Holdings Ltd., SIIC Medical Science and Technology (Group) Limited and Hang Seng Bank Limited. Mr. Li is a member of the Legislative Council of Hong Kong and serves as the chairman of the Public Accounts Committee and the vice chairman of its Panel of Financial Affairs. He served as the president of the Hong Kong Society of Accountants in 1994. He was appointed a Director in July 2000.

Mr. Cheung Yan Leung, Stephen, aged 41, is a professor of finance in the Department of Economics and Finance at the Faculty of Business, the City University of Hong Kong. Mr. Cheung holds a bachelor degree in science from the Chinese University of Hong Kong, a doctorate degree in statistics from the University of Paris VI, France and a doctorate degree in finance from the University of Stratlclyde, the United Kingdom. Mr. Cheung has extensive consultancy experience in the financial sector in Hong Kong as a project coordinator for the Consumer Council, being the course coordinator of the stock option training course organised by the Stock Exchange, and the speaker for an investment seminar organised by the Listing Division of the Stock Exchange. Mr. Cheung is also a director of the Hong Kong Securities Institute and the Chairman of the Professional Education Committee of the Institute. He was appointed a Director in July 2000.

Mr. Ng Wai Hung, aged 37, is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies.

Mr. Cheung Hon Kit, aged 47, has over 22 years of experience in real estate development, property business and corporate finance. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked for various property development companies in Hong Kong. Currently, he is a director of ITC Corporation Limited, Hanny Holdings Limited, Asean Resources Holdings Ltd. and Panva Gas Holdings Ltd.

AUDIT COMMITTEE

The following individuals have been appointed members of the Company's audit committee:

Mr. Li Ka Cheung, Eric

Mr. Cheung Yan Leung, Stephen

The duties of the audit committee comprise generally of the following matters:

1. reviewing, in draft form, the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of the Directors. In this regard:

    (a) members of the committee must liaise with the board of Directors, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and

    (b) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and

2. reviewing and supervising the Company's financial reporting and internal control procedures.

SENIOR MANAGEMENT

Mr. Cheng Jie, Jim, aged 35, is the Project Manager of the Group and joined the Group in October 1999. Mr. Cheng is responsible for IT project design, development, implementation and maintenance of the Group's websites. Mr. Cheng holds a bachelor degree in computer science from Wollongong University, Australia and a bachelor degree in mechanical engineering from Jiao Tong University, the PRC. Mr. Cheng has a strong technical background and eight years of management experience.

Mr. Ching See Wing, Brian, aged 25, is the Photography Officer of the Group and joined the Group in January 2000. He is in charge of the Photography Department of the Group. Mr. Ching graduated from Kwun Tong Vocation Technical College in Hong Kong. He has over five years of experience in photojournalism and one year of experience in sports media. Mr. Ching is also a member of the Hong Kong Photographers Association.

Mr. Kung Sai Kit, aged 38, joined the Group in December 1999 as the Deputy Chief Editor. He is responsible for the Entertainment Department of the Group. He graduated from Chu Hai College in Hong Kong with an honour degree in journalism. Prior to joining the Group, Mr. Kung was the chief editor of Billion Publication Limited for 10 years. He has over 18 years of experience in the publication field.

Mr. Li Man Fai, David, aged 39, joined the Group in January 2000 as the Accounting Manager of the Group. He is in charge of the Accounting Department of the Group. Mr. Li has ten years of experience in public auditing and four years of experience in accounting and secretarial work. Mr. Li is also an associate member of the Hong Kong Society of Accountants.

Mr. Lo Sui Sing, Thomas, aged 42, is the News Controller of the Group. He joined the Group in February 2000 and is in charge of the News Department of the Group. Mr. Lo holds a bachelor degree in journalism from Shue Yan College in Hong Kong. Mr. Lo has over 21 years of experience in both operating and planning in television news media.

Mr. Nieh Shu Hong, aged 29, is an Editorial Officer of the Group and joined the Group in September 1999. Mr. Nieh is responsible for the website on horse racing of the Group. Mr. Nieh graduated from Pui Chung Middle School in Hong Kong. He has over five years of editorial experience as a horse racing editor since 1995.

Mr. Wong Ming Kwai, aged 48, joined the Group in October 1999 and is responsible for the Metaphysics Section of the Group. He graduated from Cheung Wah College of Arts and Laws (T.W.) with a bachelor degree in journalism. Mr. Wong has 27 years of experience in editorial work in the press. He has 16 years of experience in appraising houses by "feng shui".

STAFF

As at 31 March 2001, the Group had 234 full-time employees. The breakdown of its workforce in terms of function is as follows:

Management	3
Administration and accounting	9
e-marketing and e-commerce	19
Content	179
Web programmers and designers	24
Total	234

Benefit scheme

The Group offers a comprehensive remuneration package and benefits to its employees, including medical insurance. The Directors plan to set up a destined contribution provident fund for the qualifying employees of the Group, which is expected to operate coincidentally with the introduction of Mandatory Provident Fund in Hong Kong. The Group also provides in-house training programmes for its employees, which enable employees to exchange their views with a group of experts from different fields, such as members of the Legislative Council, university professors and the staff of the Information Services Department of the Government on various topics such as government fiscal budget, presidential election in Taiwan and the relationship between media and the government.

The directors present their first report and the audited financial statements of the Company for the period from 14 April 2000 (date of incorporation) to 31 March 2001 and of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2001.

GROUP REORGANISATION AND LISTING OF THE COMPANY'S SHARES ON THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 April 2000 under the Companies Law (Revised) of the Cayman Islands. The Company's shares have been listed on the GEM of the Stock Exchange since 31 July 2000.

Pursuant to a group reorganisation (the "Group Reorganisation") which took place on 17 July 2000 to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the ultimate holding company of the companies now comprising the Group. Details of the Group Reorganisation are set out in the prospectus of the Company dated 21 July 2000 (the "Prospectus"). The results of the Group comprise the results of all companies now comprising the Group as if the current group structure had been in existence throughout the periods, or since their dates of incorporation where this is a shorter period.

Details of the Group Reorganisation are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's turnover. The largest supplier of the Group by itself and together with the next four largest suppliers accounted for 13% and 38% respectively of the Group's purchases.

Save as aforesaid, none of the Directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interest in the five largest suppliers.

RESULTS

The results of the Group for the year ended 31 March 2001 are set out in the consolidated income statement on page 32.

SEGMENTAL INFORMATION

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

	Turnover		Contribution to group results	
	1.4.2000 to 31.3.2001	2.2.1999 to 31.3.2000	**1.4.2000 to 31.3.2001**	2.2.1999 to 31.3.2000
	HK$	HK$	**HK$**	HK$
By principal activity:				
E-marketing income	**8,183,362**	–	**(67,344,263)**	(14,796,637)
E-mall income	**1,912,882**	–	**(6,292,027)**	–
Content licensing income	**667,028**	–	**(4,881,071)**	–
IT services income	**632,750**	–	**625,920**	–
	11,396,022	–	**(77,891,441)**	(14,796,637)
Other revenue			**4,249,643**	10,031
General and administrative expenses			**(13,525,165)**	(5,158,468)
Loss from operations			**(87,166,963)**	(19,945,074)

The Group operates in Hong Kong. Accordingly, no geographical analysis is presented.

RESERVES

Details of the movements during the year in the reserves of the Group and the Company are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company since its incorporation to 31 March 2001 are set out in note 20 to the financial statements.

SHARE OPTION SCHEMES

Details of the share option schemes and outstanding share options of the Company are set out in note 20 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Wong Yuk Man	(appointed on 20 April 2000)
Mr. Lai King Yan, Anthony	(appointed on 20 April 2000)
Mr. Leung Wai Man, Sunny	(appointed on 17 July 2000)
Mr. Choi Wing Kin	(appointed on 23 May 2001)

Non-executive directors

Mr. Leung Ge On, Andy	(appointed on 20 April 2000)
Mr. Shiu, Stephen Junior	(appointed on 17 July 2000)
Mr. Lo Lin Shing, Simon	(appointed on 23 May 2001)
Mr. Wu Wing Kin	(appointed on 23 May 2001)
Madam Choy Hok Man, Constance	(appointed on 20 April 2000 and resigned on 18 January 2001)

Independent non-executive directors

Mr. Cheung Yan Leung, Stephen	(appointed on 17 July 2000)
Mr. Li Ka Cheung, Eric	(appointed on 17 July 2000)
Mr. Cheung Hon Kit	(appointed on 23 May 2001)
Mr. Ng Wai Hung	(appointed on 23 May 2001)

There being no provision to the contrary in the Company's Articles of Association, all remaining Directors continue in office.

DIRECTORS' SERVICES CONTRACTS

Each of Mr. Wong Yuk Man, Mr. Lai King Yan, Anthony and Mr. Leung Wai Man, Sunny has entered into a service agreement dated 17 July 2000 with the Company. The service agreements cover an initial term of three years commencing on 17 July 2000 unless the Directors may terminate this agreement by giving to the Company at least three months' notice in writing and the Company may terminate this agreement by giving to the Directors at least 12 months' notice in writing.

Save as disclosed above, no other Directors have service contracts with the Company which are not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

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

Name of director	**Personal interest** (shares)	**Family interest** (shares)	**Corporate interest** (shares)	**Other interest** (shares)	**Total** (shares)
Mr. Leung Wai Man, Sunny	Nil	Nil	358,131,468 (Note 1)	Nil	358,131,468
Mr. Wong Yuk Man	Nil	Nil	54,836,790 (Note 2)	Nil	54,836,790
Mr. Lai King Yan, Anthony	Nil	Nil	8,123,964 (Note 3)	Nil	8,123,964

Notes:

1. Shares were held by Spencer Logistics Limited and Greatgo Holdings Limited, which are wholly-owned by Mr. Leung Wai Man, Sunny.

2. Shares were held by Super Nation Investment Limited, which is wholly-owned by Mr. Wong Yuk Man.

3. Shares were held by E-com Network Limited, which is wholly-owned by Mr. Lai King Yan, Anthony.

Other than as disclosed above, none of the Directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the Directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the pre-IPO Share Option Scheme adopted by the Company on 17 July 2000 (the "Pre-IPO Share Option Scheme"), the principal terms of which are summarised in the paragraph headed "Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus, the Company has granted the following directors 68,896,662 options to subscribe for an aggregate of 68,896,662 shares of the Company of HK$0.05 each at an exercise price of HK$0.05 per share on 18 July 2000. These options are exercisable during the period from 1 February 2001 to 30 July 2003.

Pursuant to the Pre-IPO Share Option Scheme, the options granted to and held by the directors up to 31 March 2001 were as follows:

Name of director	Granted during the year	Exercised during the year	At 31.3.2001
Mr. Wong Yuk Man	25,000,000	–	25,000,000
Mr. Leung Wai Man, Sunny	25,000,000	–	25,000,000
Mr. Lai King Yan, Anthony	12,500,000	–	12,500,000
Madam Choy Hok Man, Constance	6,250,000	(6,250,000)	–
Mr. Shiu, Stephen Junior	146,662	–	146,662

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

(i) Exempted connected transactions

(1) Skynet Limited ("Skynet"), of which Mr. Leung Ge On, Andy is also director, has sub-licensed to the Group the use of the premises at 41st Floor, CEF Life Tower, 248 Queen's Road East, Wan Chai, Hong Kong with a total gross floor area of approximately 9,808 sq. ft. (the "Licence"). Pursuant to an agreement entered into between HKcyber Limited ("HKCYBER"), a wholly-owned subsidiary of the Company, and Skynet on 17 July 2000, (i) Skynet agrees to grant the Licence to the Group for a term of 12 months from 6 February 2000; and (ii) the Group agrees to pay to Skynet a licence fee of HK$163,025 per month excluding government rates, government rent and management fee of HK$44,156 per month. According to the directors, the monthly licence fee of HK$163,025 is the amount attributable to the gross floor area occupied by the Group, which is proportional to the rent payable by Skynet under the head lease. Vigers Hong Kong Limited, an independent property valuer, has confirmed that licence fee of HK$163,025 per month is in line with the open market rent of similar type of properties located in the same locality. The arrangement was cancelled on 14 August 2000.

For the year ended 31 March 2001, the amounts paid by the Group to Skynet for the Licence, government rates, government rent and management fee amounted to HK$642,946.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS *(Continued)*

(i) Exempted connected transactions *(continued)*

(2) Skynet has provided and will continue to provide agency services to the Group for (i) soliciting advertisements to be posted on the Group's websites; (ii) soliciting business for the licensing of the content of the Group's websites; and (iii) providing the Group with market information (the "Agency Service"). Pursuant to an agreement entered into between HKCYBER and Skynet on 1 December 1999, Skynet agrees to provide the Agency Service to the Group at HK$10 for a term of one year from the date of the agreement, which will not be further extended upon its expiry.

It is the Group's intention to utilise its own e-marketing and e-commerce team to solicit business for the Group and to replace the current arrangement with Skynet.

The above transaction (1) falls within Rule 20.24 of the GEM Listing Rules as the total consideration is less than the higher of (a) HK$10,000,000 or (b) 3% of the consolidated net tangible assets of the Company. Such transaction is therefore exempted from the shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Rules 20.34 and 20.35 of the GEM Listing Rules respectively. The above transaction (2) falls within Rule 20.23 (2) of the GEM Listing Rules as the total consideration is less than the higher of (a) HK$1,000,000 or (b) 0.03% of the consolidated net tangible assets of the Company. Such transaction is therefore exempted from the reporting, announcement and shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

(ii) Non-exempted continuing connected transactions

On 17 July 2000, the Group entered into the following agreements with Skynet for a term of 12 months from the date of the agreements, which if not terminated, should be automatically renewed every 12 months subject to termination by the Group giving three months' prior written notice:

(1) Skynet provided housing facilities for the Group's servers for operation of its websites (the "Co-location Service").

(2) Skynet provided design services for certain web pages at the Group's websites (the "Design Service").

(3) Skynet provided studio facilities for the production of the Group's live programmes (the "Studio Service").

The Stock Exchange has granted waivers to the Company from strict compliance with the announcement and shareholders' approval requirements under Rules 20.35 and 20.36 of the GEM Listing Rules for each of the non-exempted continuing connected transactions stated in paragraph (ii) above ("Continuing Connected Transactions"). The arrangements on Co-location Services and Design Service were terminated on 31 March 2001.

For the year ended 31 March 2001, the fees for the Co-location Service, the Design Service and the Studio Service were HK$1,638,000, HK$3,864,000 and HK$268,851 respectively.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS *(Continued)*

The independent non-executive directors have reviewed the Continuing Connected Transactions and confirmed that at the time of transactions, they have been carried out under normal commercial terms, in the ordinary cause of business of the Group and on an arm's length basis, and are fair and reasonable insofar as the shareholders of the Company are concerned.

Save as disclosed above, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

Save as disclosed in note 27 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors (and chief executives) the following shareholders had an interest of 10% or more in the share capital of the Company.

Name	**Number of shares**
Greatgo Holdings Limited	262,486,876 (Note 1)
Mr. Leung Wai Man, Sunny	358,131,468 (Note 2)
Qantex Limited ("Qantex")	457,373,126 (Notes 3 & 6)
Skynet	457,373,126 (Notes 3 & 6)
Gold Cloud Agents Limited ("Gold")	457,373,126 (Notes 3 & 6)
Companion Marble (BVI) Limited	457,373,126 (Notes 3 & 6)
Skynet (International Group) Holdings Limited ("SIGHL")	457,373,126 (Notes 3 & 6)
Companion Building Material (Holdings) Limited ("CBMHL")	538,717,126 (Notes 4 & 6)
Companion Building Material (BVI) Limited	538,717,126 (Notes 4 & 6)
Companion Building Material International Holdings Limited	538,717,126 (Notes 4 & 6)
Hanny Magnetics (B.V.I.) Limited ("Hanny")	300,140,000 (Notes 5 & 6)
Hanny Holdings Limited	300,140,000 (Notes 5 & 6)

Notes:

1. Greatgo Holdings Limited is wholly-owned by Mr. Leung Wai Man, Sunny.

2. Mr. Leung Wai Man, Sunny's shares are held through Greatgo Holdings Limited and Spencer Logistics Limited, each of which is wholly-owned by Mr. Leung Wai Man, Sunny.

3. These 457,373,126 shares of the Company are owned by Qantex. Qantex is a wholly-owned subsidiary of Skynet of which Gold owns more than one-third of the issued share capital. Companion Marble (BVI) Limited owns more than one-third of the issued share capital of Gold and is a wholly-owned subsidiary of SIGHL.

4. Of these 538,717,126 shares of the Company, 457,373,126 shares are owned by Qantex and 81,344,000 shares are owned by CBMHL. CBMHL owns more than one-third of the issued share capital of SIGHL, which indirectly holds approximately 54 percent of the issued share capital of Qantex. Companion Building Material (BVI) Limited owns the entire share capital of CBMHL and is a wholly-owned subsidiary of Companion Building Material International Holdings Limited.

5. Hanny is a wholly-owned subsidiary of Hanny Holdings Limited.

6. 267 and 733 2% convertible cumulative preference shares of the Company (the "Preference Shares"), the principal terms of which are summarised in the paragraph headed "Group reorganisation" in Appendix IV to the Prospectus, have been issued and allotted to Hanny and Qantex respectively. On 1 February 2001, Hanny and Qantex have converted all the Preference Shares into 100,125,000 and 274,875,000 ordinary shares of the Company (the "Conversion") respectively. The respective interests of Hanny and Qantex in the Company have been consequently increased to approximately 18.47% and 34.61% of the enlarged issued share capital of the Company immediately following the Conversion.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2001.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

SPONSORS' INTEREST

Yuanta Securities (Hong Kong) Company Limited (name changed to Core Pacific-Yamaichi (Hong Kong) Company Limited) ("Yuanta HK") has entered into a sponsorship agreement with the Company whereby, for a fee, Yuanta HK has been acting and will act as the Company's continuing sponsor for the period from the date the shares of the Company are listed on the GEM the Stock Exchange (i.e. 31 July 2000) to 31 March 2003 (the "Period"). On 4 May 2001, Yuanta HK has notified the Stock Exchange and the Company that, due to the merger between the Yuanta group and the Core Pacific group, the employment of the then existing staff of Yuanta HK has been transferred to Core Pacific-Yamaichi Capital Limited ("CPYC") and the then existing business of Yuanta HK has been gradually transferred to CPYC. As Yuanta HK no longer complies with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules, Yuanta HK has been terminated with immediate effect its role as continuing sponsor of the Company and proposed to the Company to appoint CPYC as the replacement sponsor for the balance of the Period ending 31 March 2003. The Company may also consider appointing other companies which have been admitted to the list of sponsors maintained and published by the Stock Exchange from time to time. In accordance with Rule 6.63 of the GEM Listing Rules, the Company with endeavour to appoint a replacement sponsor on or before 4 August 2001. As at the date of this report, the Company has yet to appoint any replacement sponsor.

As at 31 March 2001, Yuanta HK, its directors, employees or associates, did not have any interest in the share capital of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

DONATIONS

During the year, the Group made charitable donations amounting to HK$1,017,000.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 25 to the financial statements.

AUDIT COMMITTEE

Pursuant to the GEM Listing Rules, the Company has established an audit committee with written terms of reference in July 2000. The audit committee comprises two independent non-executive directors, Mr. Li Ka Cheung, Eric and Mr. Cheung Yan Leung, Stephen. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

Since its establishment, the audit committee met three times, reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

During the period, Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Lai King Yan, Anthony
Executive Director
Hong Kong, 27 June 2001

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
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永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF HKCYBER.COM (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 32 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 27 June 2001

For the year ended 31 March 2001

	Notes	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Turnover	3	**11,396,022**	–
Other revenue	4	**4,249,643**	10,031
Website development expenses		**(72,825,977)**	(10,292,239)
Advertising and promotion expenses		**(16,461,486)**	(4,504,398)
General and administrative expenses		**(13,525,165)**	(5,158,468)
Loss from operations	5	**(87,166,963)**	(19,945,074)
Finance costs	6	**(107,448)**	(73)
Loss on partial disposal of a subsidiary		**(312)**	–
Loss before taxation		**(87,274,723)**	(19,945,147)
Taxation	9	**–**	–
Loss before minority interest		**(87,274,723)**	(19,945,147)
Minority interest		**312**	–
Net loss for the year/period	10	**(87,274,411)**	(19,945,147)
Dividend	11	**(672,877)**	–
		(87,947,288)	(19,945,147)
Loss per share			
Basic	12	**7.12 cents**	1.99 cents

There were no recognised gains or losses other than the net loss for the year/period.

At 31 March 2001

	Notes	2001 HK$	2000 HK$
Non-current assets			
Property, plant and equipment	13	**31,881,730**	6,809,151
Intangible assets	14	**35,368,196**	49,480
Pledged bank deposit	16	**489,075**	–
		67,739,001	6,858,631
Current assets			
Accounts receivable		**1,786,334**	–
Amount due from a related company	17	**135,831**	345,836
Other receivables, deposits and prepayments		**1,464,004**	78,250
Pledged bank deposit	16	**600,000**	–
Bank balances and cash		**37,764,750**	39,560,915
		41,750,919	39,985,001
Current liabilities			
Accounts payable		**4,772,883**	1,589,809
Accrued charges		**871,306**	448,700
Amount due to a related company	18	**–**	11,698,433
Amount due to a director	19	**–**	27,163
Preference dividend payable		**672,877**	–
Deferred income		**136,818**	–
Bank overdraft		**150,973**	–
		6,604,857	13,764,105
Net current assets		**35,146,062**	26,220,896
		102,885,063	33,079,527
Capital and reserves			
Share capital	20	**83,132,787**	27,668
Share premium and reserves	21	**19,752,276**	33,051,859
		102,885,063	33,079,527

The financial statements on pages 32 to 56 were approved by the Board of Directors on 27 June 2001 and are signed on its behalf by:

Wong Yuk Man	**Lai King Yan, Anthony**
Director	*Director*

At 31 March 2001

	Notes	HK$
Non-current assets		
Interests in subsidiaries	15	173,632,801
Current assets		
Pledged bank deposit	16	600,000
Bank balances and cash		37,669,013
		38,269,013
Current liabilities		
Accrued charge		300,000
Preference dividend payable		672,877
Net current assets		972,877
		37,296,136
		210,928,937
Capital and reserves		
Share capital	20	83,132,787
Share premium and reserves	21	127,796,150
		210,928,937

Wong Yuk Man
Director

Lai King Yan, Anthony
Director

For the year ended 31 March 2001

	Notes	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	**(77,977,996)**	(18,034,898)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		**(107,448)**	(73)
Interest received		**3,264,712**	31
NET CASH INFLOW (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**3,157,264**	(42)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(30,158,793)**	(7,099,507)
Purchase of intangible assets		**(41,905,766)**	(54,908)
Increase in pledged bank deposits		**(1,089,075)**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(73,153,634)**	(7,154,415)
NET CASH OUTFLOW BEFORE FINANCING		**(147,974,366)**	(25,189,355)
FINANCING	24		
Issue of ordinary shares by the Company pursuant to the New Issue and Placing		**170,000,000**	–
Expenses incurred in connection with the New Issue and Placing		**(14,129,963)**	–
Issue of ordinary shares by the Company as a result of exercise of share options		**1,882,787**	–
Issue of ordinary shares by HKCYBER		**–**	13,024,674
Issue of preference shares by HKCYBER		**–**	40,000,000
(Repayment to) advances from a related company		**(11,698,433)**	11,698,433
(Repayment to) advances from a director		**(27,163)**	27,163
NET CASH INFLOW FROM FINANCING		**146,027,228**	64,750,270
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,947,138)**	39,560,915
CASH AND CASH EQUIVALENTS AT 1 APRIL		**39,560,915**	–
CASH AND CASH EQUIVALENTS AT 31 MARCH		**37,613,777**	39,560,915
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**37,764,750**	39,560,915
Bank overdraft		**(150,973)**	–
		37,613,777	39,560,915

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated on 14 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 15.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of HKcyber Limited ("HKCYBER") and thereby became the holding company of the Group on 17 July 2000. Details of the Group Reorganisation and the new issue and placing of shares of the Company ("New Issue and Placing") are set out in the prospectus dated 21 July 2000 (the "Prospectus") issued by the Company.

The shares of the Company have been listed on the GEM of the Stock Exchange with effect from 31 July 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on a merger accounting basis as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

The financial statements for the current period cover the 12 month period ended 31 March 2001. The corresponding amounts shown for the income statement, cash flows and related notes cover the period from 2 February 1999 to 31 March 2000, and therefore may not be comparable with amounts shown for the current year.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year, on the basis set out above.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable during the year.

Revenue recognition

Advertising income net of agency deductions is recognised when the relevant advertisements are broadcast. When an advertising contract covers a specific period, the related income is recognised evenly over the contract period. The amounts attributable to future accounting period are included in deferred income in the balance sheet.

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

Services income is recognised when the services are rendered.

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

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

For the year ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

Leasehold improvements	30%
Furniture, fixtures and equipment	15%
Computer hardware	15%

Intangible assets

The cost of acquired intangible assets comprise expenditure on computer software and movie licence agreements for rights of presentation. Such expenditure is capitalised and charged to the income statement over their estimated commercial lives at 30% per annum.

Website development costs

The Group's website developments cost are capitalised only if all the following conditions are met:

– an asset is created that can be identified (such as software and new processes);
– it is probable that the asset created will generate future economic benefits; and
– the development cost of the asset can be measured reliably.

The assets are amortised on a straight line basis over their useful lives at 30% per annum.

Where no asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Advertising and promotion costs

Advertising and promotion costs are charged to the income statement as incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Retirement benefits schemes

The Group operates defined contribution schemes for its employees. Contributions to the defined contribution schemes are charged to the income statement. Forfeited contributions are used to reduce the subsequent contributions for provident fund schemes.

Foreign currencies

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

Cash equivalents

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

3. TURNOVER

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
The Group's turnover comprises:		
Advertising income net of agency deductions	**8,183,362**	–
Sales of goods	**1,912,882**	–
Services income	**1,299,778**	–
	11,396,022	–

For the year ended 31 March 2001

4. OTHER REVENUE

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Interest income on bank deposits	**2,340,534**	31
Other interest income	**924,178**	–
Sundry income	**984,931**	10,000
	4,249,643	10,031

5. LOSS FROM OPERATIONS

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Loss from operations has been arrived at after charging:		
Amortisation of intangible assets	**6,587,050**	5,428
Auditors' remuneration	**454,200**	106,000
Bad debts written off	**555,207**	–
Depreciation of property, plant and equipment	**5,086,214**	290,356
Rental expenses under operating leases on		
– premises	**1,519,955**	236,948
– equipment	**3,887,800**	–
Staff costs, including directors' emoluments	**37,864,926**	8,551,299

6. FINANCE COSTS

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Interest on bank overdraft	**107,448**	73

7. DIRECTORS' EMOLUMENTS

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Directors' fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	–	–
	–	–
Other emoluments of executive directors:		
Salaries and other benefits	3,642,137	1,680,000
Bonus	–	–
Contributions to retirement benefits schemes	93,800	–
	3,735,937	1,680,000
	3,735,937	1,680,000

There were three directors who received emoluments of approximately HK$2,669,000, HK$627,000 and HK$440,000 respectively for the year ended 31 March 2001 and approximately HK$1,320,000, HK$210,000 and HK$150,000 respectively for the period from 2 February 1999 to 31 March 2000. The other directors did not receive any emoluments during the year/period.

During the year/period, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director had waived or agreed to waive any remuneration.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included three (2.2.1999 to 31.3.2000: three) directors of the Company whose emoluments are included in note 7 above. The emoluments of the remaining two (2.2.1999 to 31.3.2000: two) individuals were as follows:

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Salaries and other benefits	**1,817,981**	364,818
Bonus	**–**	–
Contribution to retirement scheme	**46,113**	–
	1,864,094	364,818

The emoluments of these highest paid individuals were within the following bands:

	Number of individuals	
	1.4.2000 to 31.3.2001	2.2.1999 to 31.3.2000
Nil – HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable income for the year/period.

Details of unprovided deferred taxation for the year/period are set out in note 22.

10. NET LOSS FOR THE YEAR/PERIOD

Of the Group's net loss for the year ended 31 March 2001 of HK$87,274,411, a profit of HK$824,316 has been dealt with in the financial statements of the Company.

11. DIVIDEND

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
2% convertible cumulative preference shares	**672,877**	–

The 2% convertible cumulative preference shares of the Company (the "Preference Shares") confer upon the holders the right to receive, in priority to the holders of any other class of shares in the capital of the Company, a dividend of 2%.

The dividend shall be cumulative and payable yearly in arrears on 31 March in each year, shall accrue from day to day and shall be calculated on the basis of the actual number of days that lapsed in a year of 365 days. The first dividend shall be payable on 31 March 2002.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK$87,947,288 (2.2.1999 to 31.3.2000: HK$19,945,147) and the weighted average number of 1,235,431,439 shares (2.2.1999 to 31.3.2000: 1,000,000,000 shares) in issue during the year/period.

No diluted loss per share has been presented as the exercise of the potential ordinary shares would not have dilutive effect on the loss per share.

The 1,000,000,000 shares issued prior to the listing of the Company's shares on the GEM of the Stock Exchange are treated as if they had been outstanding throughout the year/period.

For the year ended 31 March 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Computer hardware HK$	Total HK$
THE GROUP				
COST				
At 1 April 2000	954,118	622,356	5,523,033	7,099,507
Additions	925,708	2,020,569	27,212,516	30,158,793
At 31 March 2001	**1,879,826**	**2,642,925**	**32,735,549**	**37,258,300**
DEPRECIATION				
At 1 April 2000	112,682	29,502	148,172	290,356
Charge for the year	443,298	263,315	4,379,601	5,086,214
At 31 March 2001	**555,980**	**292,817**	**4,527,773**	**5,376,570**
NET BOOK VALUES				
At 31 March 2001	**1,323,846**	**2,350,108**	**28,207,776**	**31,881,730**
At 31 March 2000	841,436	592,854	5,374,861	6,809,151

For the year ended 31 March 2001

14. INTANGIBLE ASSETS

	Computer software HK$	Movie rights HK$	Total HK$
THE GROUP			
COST			
At 1 April 2000	54,908	–	54,908
Additions	32,505,766	9,400,000	41,905,766
At 31 March 2001	**32,560,674**	**9,400,000**	**41,960,674**
AMORTISATION			
At 1 April 2000	5,428	–	5,428
Charge for the year	5,412,050	1,175,000	6,587,050
At 31 March 2001	**5,417,478**	**1,175,000**	**6,592,478**
NET BOOK VALUES			
At 31 March 2001	**27,143,196**	**8,225,000**	**35,368,196**
At 31 March 2000	49,480	–	49,480

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY HK$
Unlisted shares, at cost	53,024,684
Amounts due from subsidiaries	120,608,117
	173,632,801

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid in the next twelve months. Accordingly, the amounts are shown as non-current assets.

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 March 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company Directly	Indirectly	Principal activities
HKCYBER	Hong Kong	2 ordinary shares of HK$1 each 27,668 non-voting deferred shares of HK$1 each	100%	–	Development and operation of a website "hkcyber.com"
Cyber Awake Limited	British Virgin Islands/Hong Kong	100 shares of US$1 each	–	60%	Inactive
Cyber Peak Developments Limited	British Virgin Islands/Hong Kong	1 share of US$1	100%	–	Investment holding
Tober Group Limited	British Virgin Islands/Hong Kong	1 share of US$1	–	100%	Inactive

None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

16. PLEDGED BANK DEPOSITS

Bank deposits were pledged to a bank to secure the following:

	THE GROUP		THE COMPANY	
	2001	2000	**2001**	2000
	HK$	HK$	**HK$**	HK$
Bank guarantee for a supplier	**600,000**	–	**600,000**	–
Bank guarantee in lieu of rental deposits	**489,075**	–	**–**	–
	1,089,075	–	**600,000**	–
Less: Amount shown under current assets	**(600,000)**	–	**(600,000)**	–
Amount shown under non-current assets	**489,075**	–	**–**	–

17. AMOUNT DUE FROM A RELATED COMPANY

		THE GROUP	
		2001	2000
		HK$	HK$
Name of related company	**Relationship**		
Gameplayers.com Limited	Common shareholder, Skynet Limited	**–**	345,836
Skynet Limited	Common director, Leung Ge On, Andy	**135,831**	–
		135,831	345,836

The amounts are trading in nature. They are unsecured, non-interest bearing and are repayable on demand.

18. AMOUNT DUE TO A RELATED COMPANY

The amount was due to Skynet Limited. It was unsecured, non-interest bearing, and had no fixed repayment terms.

19. AMOUNT DUE TO A DIRECTOR

The amount was unsecured, non-interest bearing and had no fixed repayment terms.

20. SHARE CAPITAL

Movements in the share capital of the Company since its incorporation on 14 April 2000 to 31 March 2001 were as follows:

	Notes	Number of shares: Ordinary shares of HK$0.10 each	Number of shares: Ordinary shares of HK$0.05 each	Value HK$
Authorised:				
Ordinary shares				
On incorporation	(a)	1,000,000	–	100,000
Change of nominal value of shares from HK$0.10 each to HK$0.05 each	(c)	(1,000,000)	2,000,000	–
		–	–	–
Increase in authorised share capital	(c)		37,498,000,000	1,874,900,000
At 31 March 2001			37,500,000,000	1,875,000,000
Preference Shares				
On incorporation			–	–
Increase in authorised share capital	(c)		2,000	100
At 31 March 2001			2,000	100
Issued and fully paid:				
Ordinary shares				
Allotted, issued and credited as fully paid	(b)	1	–	–
Change of nominal value of shares from HK$0.10 to HK$0.05 each	(c)	(1)	2	–
		–		
Issue of shares upon the Group Reorganisation	(d)		53,334	2,667
Pre-IPO issue	(e)		999,946,664	49,997,333
Issue of shares pursuant to the New Issue and Placing	(f)		250,000,000	12,500,000
Conversion of the Preference Shares into ordinary shares	(g)		375,000,000	18,750,000
Issue of shares as a result of exercise of share options	(i)		37,655,737	1,882,787
At 31 March 2001			1,662,655,737	83,132,787
Preference Shares				
Issue of shares upon the Group Reorganisation	(d)		1,000	50
Conversion of the Preference Shares into ordinary shares	(g)		(1,000)	(50)
At 31 March 2001			–	–

20. SHARE CAPITAL *(Continued)*

Notes:

(a) The Company was incorporated on 14 April 2000 with an authorised share capital of HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each.

(b) On 20 April 2000, one share of HK$0.10 was allotted and issued nil paid to Codan Trust Company (Cayman) Limited which was immediately transferred to Qantex Limited ("Qantex"), which such share was subsequently credited as fully paid.

(c) Pursuant to a written resolution of Qantex passed on 12 July 2000, by means of a sub-division of share capital, the par value of the shares of the Company was reduced from HK$0.10 each to HK$0.05 each, and the one issued share of HK$0.10 in the capital of the Company was subdivided into two shares. Pursuant to a further written resolution of the Qantex passed on 17 July 2000, the authorised share capital of the Company was increased from HK$100,000 to HK$1,875,000,100 by the creation of an additional 37,498,000,000 shares of HK$0.05 each and the creation of 2,000 Preference Shares.

(d) On 17 July 2000, 53,334 ordinary shares and 1,000 Preference Shares were allotted and issued as to 5,102 shares to Spencer Logistics Limited, as to 434 shares to E-com Network Limited, as to 2,924 shares to Super Nation Investment Limited, as to 1,624 shares to Effectual Agents Limited, as to 1,624 shares to Final Result Limited, as to 1,624 shares to Massive Result Limited, as to 10,668 shares and 267 Preference Shares to Hanny Magnetics (B.V.I.) Limited, as to 15,334 shares and 733 Preference Shares to Qantex, as to 14,000 shares to Greatgo Holdings Ltd., all credited as fully paid. Details of these are set out in the paragraph headed "Group reorganisation" of the Prospectus.

(e) Pursuant to the written resolutions of Qantex passed on 17 July 2000, the conditions of the Placing set out in the Prospectus being fulfilled, an aggregate of 999,946,664 ordinary shares were allotted and issued, credited as fully paid at par, to the then existing shareholders of the Company in proportion as nearly as possible to their respective shareholdings (the "Pre-IPO Issue").

(f) Pursuant to written resolutions of all the shareholders of the Company passed on 26 July 2000, conditional on the same conditions as stated in the subsection headed "Conditions of the Placing" under the section headed "Structure of the Placing" in the Prospectus, the new issue and placing of 250,000,000 ordinary shares of the Company of HK$0.05 each at a price of HK$0.68 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the New Issue and Placing.

On 27 July 2000, the Company completed the issue, allotment and despatch of 999,946,664 and 250,000,000 ordinary shares of the Company of HK$0.05 each in connection with the Pre-IPO Issue and the New Issue and Placing respectively. The above resolutions became unconditional on 31 July 2000 when the Company's shares were listed on the GEM of the Stock Exchange. The proceeds from the shares issued above were used for financing the Group's Internet infrastructure development, advertising and marketing of Internet business as well as general working capital.

20. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(g) The 1,000 Preference Shares were converted into 375,000,000 ordinary shares of HK$0.05 each on 1 February 2001, representing 30% of the number of the issued share capital of the Company immediately upon completion of the listing of the Company's shares on the GEM of the Stock Exchange.

(h) The share capital at 31 March 2000 as shown in the consolidated balance sheet represented the nominal value of the issued share capital of HKCYBER, the then holding company of the subsidiaries, acquired by the Company pursuant to the Group Reorganisation.

(i) Share option schemes

Under the pre-IPO Share Option Scheme adopted by the Company on 17 July 2000 (the "Pre-IPO Share Option Scheme"), the Company has outstanding share options thereunder to subscribe for 125,000,000 ordinary shares of HK$0.05 each at HK$0.05 per share to a number of grantees, being 119 employees of the Group (including 5 directors) and a consultant to the Group. A summary of the principal terms of the Pre-IPO Shares Option Scheme and particulars of the options granted are set out in the paragraph headed "Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus. On full exercise of all options granted under the Pre-IPO Share Option Scheme, 125,000,000 ordinary shares will be issued, representing 10 per cent. of the issued shares immediately after completion of the issue of shares pursuant to the New Issue and Placing (but excluding the exercise of options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the conversion of the Preference Shares and the issue of shares upon any exercise of the option granted by the Company to the underwriters.)

The Group has conditionally adopted the Share Option Scheme under which employees of the Group may be granted options to subscribe for shares of the Company. The principal terms of the Share Option Scheme are summarised in the paragraphs headed "Share Option Scheme" in Appendix IV to the Prospectus.

A summary of movements in the share options during the year under the Share Option Scheme are as follows:

		Number of share options		
Exercisable period	**Exercise price per share** HK$	**Granted during the year**	**Exercised during the year**	**At 31.3.2001**
31 July 2000 to 30 July 2003	0.05	125,000,000	(37,655,737)	87,344,263

21. SHARE PREMIUM AND RESERVES

	Share premium of the Company	Share premium of HKCYBER	Merger reserve	Accumulated (losses) profits	Total
	HK$	HK$	HK$	HK$	HK$
THE GROUP					
Shares of HKCYBER issued at premium	–	52,997,006	–	–	52,997,006
Loss for the period	–	–	–	(19,945,147)	(19,945,147)
Balance at 31 March 2000	–	52,997,006	–	(19,945,147)	33,051,859
Transfer of share premium to merger reserve as a result of the Group Reorganisation	–	(52,997,006)	52,997,006	–	–
Merger reserve arising upon the Group Reorganisation	–	–	24,951	–	24,951
Shares issued at premium	157,500,000	–	–	–	157,500,000
Expenses incurred in connection with the New Issue and Placing	(14,129,963)	–	–	–	(14,129,963)
Allotment under the Pre-IPO Issue	(49,997,333)	–	–	–	(49,997,333)
Conversion of the Preference Shares into ordinary shares	(18,749,950)	–	–	–	(18,749,950)
Loss for the year	–	–	–	(87,274,411)	(87,274,411)
Dividend (note 11)	–	–	–	(672,877)	(672,877)
Balance at 31 March 2001	**74,622,754**	**–**	**53,021,957**	**(107,892,435)**	**19,752,276**
THE COMPANY					
Merger reserve arising upon the Group Reorganisation	–	–	53,021,957	–	53,021,957
Shares issued at premium	157,500,000	–	–	–	157,500,000
Expenses incurred in connection with the New Issue and Placing	(14,129,963)	–	–	–	(14,129,963)
Allotment under Pre-IPO Issue	(49,997,333)	–	–	–	(49,997,333)
Conversion of the Preference Shares into ordinary shares	(18,749,950)	–	–	–	(18,749,950)
Profit for the period	–	–	–	824,316	824,316
Dividend (note 11)	–	–	–	(672,877)	(672,877)
Balance at 31 March 2001	**74,622,754**	**–**	**53,021,957**	**151,439**	**127,796,150**

21. SHARE PREMIUM AND RESERVES *(Continued)*

Merger reserve of the Group represents the difference between the share capital and share premium of HKCYBER whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation.

Merger reserve of the Company represents the difference between the consolidated shareholders' funds of HKCYBER and the nominal amount of the issued share capital of the Company's shares which were issued for the acquisition of HKCYBER and its subsidiaries pursuant to the Group Reorganisation.

The Company's reserves available for distribution comprise share premium, merger reserve and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of a company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, the Company had HK$127,796,150 reserves available for distribution at 31 March 2001.

22. UNPROVIDED DEFERRED TAXATION

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

	THE GROUP	
	2001	2000
	HK$	HK$
Tax effect of timing differences because of:		
Taxation losses available to relieve future assessable profit	**26,111,000**	4,110,000
Excess of tax allowances over accounting depreciation and amortisation	**(9,089,000)**	(958,000)
	17,022,000	3,152,000

22. UNPROVIDED DEFERRED TAXATION *(Continued)*

The components of the unprovided deferred tax credit (charge) for the year/period are as follows:

	THE GROUP	
	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Tax effect of timing differences because of:		
Tax losses arising	**22,001,000**	4,110,000
Excess of tax allowances over accounting depreciation and amortisation	**(8,131,000)**	(958,000)
	13,870,000	3,152,000

The deferred tax asset has not been recognised in the financial statements as it is not certain that it will be realised in the foreseeable future.

23. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Loss before taxation	**(87,274,723)**	(19,945,147)
Interest income	**(3,264,712)**	(31)
Interest expenses	**107,448**	73
Loss on partial disposal of a subsidiary	**312**	–
Depreciation of property, plant and equipment	**5,086,214**	290.356
Amortisation of intangible assets	**6,587,050**	5,428
Increase in accounts receivable	**(1,786,334)**	–
Decrease (increase) in amount due from a related company	**210,005**	(345,836)
Increase in other receivables, deposits and prepayments	**(1,385,754)**	(78,250)
Increase in accounts payable	**3,183,074**	1,589,809
Increase in accrued charges	**422,606**	448,700
Increase in deferred income	**136,818**	–
Net cash outflow from operating activities	**(77,977,996)**	(18,034,898)

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD

	Share capital and share premium HK$	Amount due to a related company HK$	Amount due to a director HK$
Issue of ordinary shares by HKCYBER	13,024,674	–	–
Issue of preference shares by HKCYBER	40,000,000	–	–
Advances during the period	–	11,698,433	27,163
Balance at 1 April 2000	53,024,674	11,698,433	27,163
Transfer of share premium of HKCYBER to merger reserve	(52,997,006)	–	–
Non-cash transaction	(24,951)	–	–
Issue of ordinary shares by the Company pursuant to the New Issue and Placing	170,000,000	–	–
Expenses incurred in connection with the New Issue and Placing	(14,129,963)	–	–
Issue of ordinary shares by the Company as a result of exercise of share options	1,882,787	–	–
Repayment during the year	–	(11,698,433)	(27,163)
Balance at 31 March 2001	157,755,541	–	–

25. RETIREMENT BENEFITS SCHEMES

The Group has two defined contribution provident fund schemes for its Hong Kong employees. The Scheme assets of the first one are being held under a provident fund operated by The Prudential Assurance Company Limited with BOCI-Prudential Trustee Limited as Trustees. The second one is operated by CMG Asia Pensions and Retirement Limited with Butterfield Trust (Hong Kong) Limited as Trustees.

The Group is required to make contributions to the schemes calculated at 5% of the employees' basic salaries on a monthly basis. The Group's contribution's will further increase proportionally to a maximum of 5% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contributions and the accrued interest after 10 years' of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contributions.

25. RETIREMENT BENEFITS SCHEMES *(Continued)*

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the income statement of the Group amounted to:

	1.4.2000 to 31.3.2001 HK$	2.2.1999 to 31.3.2000 HK$
Gross employers' contributions	**761,948**	–
Less: Forfeited contributions utilised to offset employers' contributions for the year/period	**–**	–
Net employers' contributions charged to the income statement	**761,948**	–

At the balance sheet date, there were no forfeited contributions available to offset future employers' contributions to the schemes.

On 20 July 2000, the above provident fund schemes were granted an exemption from the Mandatory Provident Fund Schemes. The principal deed and the rules of the above provident fund schemes were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance.

With effect from 1 December 2000, the Group also participates in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by CMG Asia Pensions and Retirement Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Scheme Ordinance) on a monthly basis.

The employees entitled to the defined contribution provident fund schemes before 1 December 2000 were allowed an option between joining the mandatory provident fund or continuing to making contributions to the defined contribution provident fund schemes. All other existing or newly employed employees are required to join the mandatory provident fund scheme compulsorily. The Group is required to make contributions to either of the two types of schemes according to the employees' options.

26. OPERATING LEASE COMMITMENTS

At 31 March 2001, the Group had the following commitments payable within the next twelve months under non-cancellable operating leases:

	2001	2000
	HK$	HK$
In respect of rented premises which expire in the second to fifth year inclusive	**1,956,300**	–
In respect of equipments rental which expire within one year	**1,372,200**	–

Notes: In respect of equipmental rental, the relevant agreement was signed by Skynet and the Company shared their portion (HK$1,200,000) and reimbursed to Skynet.

27. RELATED PARTY TRANSACTIONS

During the year/period, the Group entered into the following transactions with related parties:

	1.4.2000 to 31.3.2001	2.2.1999 to 31.3.2000
	HK$	HK$
Rentals and building management fee (note a)	**911,797**	429,447
Technical support service (note b)	**5,502,000**	–
Acquisition of content rights (note c)	**–**	3,000,000

Notes:

(a) A company, has indirect interests in the Group, provided office space for the Group during the year and the above sum was charged, being an appropriate allocation of costs incurred.

(b) A company, has indirect interests in the Group, provided co-location services and web design services for the Group during the year.

(c) In the prior period, the Group acquired the content rights from a company which a director of the Group has interests therein.

All the above transactions were charged at cost.