



Riverhill

Holdings Limited

山河控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2001

*For identification only



Characteristics of GEM

- ▶ 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 companies. ◻

Mission

TO STRIVE TO BECOME ONE OF THE MOST
PREFERRED TECHNOLOGICAL SERVICE PROVIDERS
IN BRINGING DIGITAL EARTH TO REALITY.

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Corporate Information

EXECUTIVE DIRECTORS

Prof. He Xiao Feng (*Chairman*)
 Mr. Wang Guo Wei (*Vice Chairman and
 Chief Operating Officer*)
 Mr. Liu Hao (*Chief Executive Officer*)
 Mr. Yick Chong San (*Chief Financial Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Hong Jun Yan
 Prof. Zhou Qi Ming

QUALIFIED ACCOUNTANT

Mr. Yick Chong San, B.A., ACCA

COMPANY SECRETARY

Mr. Yick Chong San, B.A., ACCA

AUTHORISED REPRESENTATIVES

Mr. Liu Hao
 Mr. Yick Chong San

AUDIT COMMITTEE

Prof. Hong Jun Yan
 Prof. Zhou Qi Ming

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISOR ON HONG KONG LAW

Sit Fung Kwong & Shum

LEGAL ADVISOR ON PRC LAW

C & I Partners

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited

SPONSOR

Anglo Chinese Corporate Finance, Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

17/F, HaiLong Building
 No. 1 Zhong Guan Cun Street
 Haidian District
 Beijing
 China

PRINCIPAL BANKERS

Wing Hang Bank, Ltd.
 First Pacific Bank
 Standard Chartered Bank
 Liu Chong Hing Bank Limited
 China Everbright Bank

WEB SITE

www.river-hill.com

E-MAIL

co@river-hill.com

Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Riverhill Holdings Limited (“the Company”) will be held at Room 1503, Crocodile House II, 50–55 Connaught Road Central, Hong Kong, on Friday, 19 October 2001, at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors for the year ended 30 June 2001.
2. To elect directors and to authorize the board of directors to fix their remuneration.
3. To appoint auditors and to authorize the board of directors to fix their remuneration.

By Order of the Board
Riverhill Holdings Limited
Yick Chong San
Company Secretary

Notes:

1. In order to qualify for attending for the forthcoming Meeting of the company, all shares transfer accompanied by the relevant share certificates must be lodged with the Company’s branch registrars in Hong Kong, Hong Kong Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
2. The Form of Proxy shall be in writing under your hand or your attorney duly authorized in writing, or in the case of a corporation, either under its Common Seal or under the hand of an officer, attorney or other person duly authorized to sign the same. Only one of the joint holders needs to sign.
3. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the Meeting. A proxy need not be a member of the Company.
4. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority, (if any) under which it is signed or a notarially certified copy of such power or authority, must be delivered at the Company’s branch registrars in Hong Kong, Hong Kong Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
5. Delivery of the form of proxy will not preclude a member from attending and voting at the Meeting if the member so desires.

Chairman's Statement

Dear shareholders,

I would like to first reminisce with you about the path of the successful listing of the Riverhill Group. After the Share Offer (as defined in the prospectus of the Company dated 18th May 2001) started on 18th May 2001, the response has been encouraging. The over subscription triggered the issue of an additional 15% of shares following the exercise of the over-allotment option. On 1st June 2001, Riverhill became the first listed company in Hong Kong, that has its business focus on providing geographic information services.

We believe that nothing can be accomplished without a solid foundation. Throughout the last year, we have been consolidating our technical competitiveness; customizing solutions for various sectors; identifying business opportunities and enhancing management effectiveness, with a view to supporting our sustainable growth. The Group recorded an operating loss in the last financial year. However, we believe that accumulating technological reserves and identifying the right target customers are both crucial to our business growth, and we have made significant progress in these two areas in the last year. We are not focusing on a technology, but a fast growing industry that offers enormous business opportunities. We are meticulously charting the development of this industry and up we will soar to seize these opportunities.

Chairman
Prof. He Xiao Feng

Chairman's Statement

The commercialization of geographic information technology is rapidly advancing. It is indicated by the growth in demand of this technology in various sectors and the maturation of the products. In the PRC, the Ministry of Railway is investing over billions of dollars to establish its information platform. Government and business entities in other sectors, such as town planning, transportation and electricity, are also setting up their platforms that require the utilization of geographic information technology.

The popularity of geographic information technology has also increased among the general public. Accordingly, Riverhill is actively pursuing the development in two areas, namely, public geographic information systems and location based services. Riverhill plans to offer its products and services to the whole China, starting from clinching the approval for operating geographic information services in cities including, Beijing, Wuhan and Xian. Riverhill will also spearhead the advancement of location based services, by launching a new mobile navigation service model, with both navigation and geographic information inquiry attributes.

Riverhill would not be the same without the support of our shareholders. We are convinced that there is no better way to express our gratitude, but to strive relentlessly to create shareholder value. We also believe that linking the Group's corporate strategy to our resolve to maximize shareholder value will be one of the pillars that stand our hall of success.

I would like to thank our directors and staff for their restless efforts and firm commitment, and our shareholders, customers and business partners for their support. With this consistent support, Riverhill is able to aim higher, reach higher, and become the leader in the industry.

Chairman

He Xiao Feng

Beijing, 17th September 2001

A completely integrated solution based on
Cutting Edge Technology

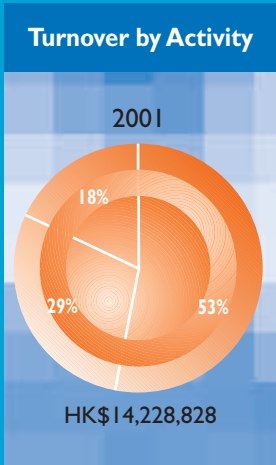


Business Review

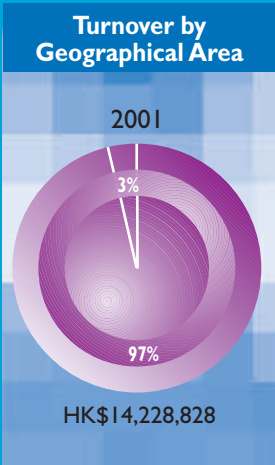
Year 2000/2001 marked a milestone in the development of the Group. The successful listing of the Group on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited in June 2001 signified a stride in our corporate status and provided additional momentum for our business development. In the year, the Group has been expanding, accommodating changes and making improvements with a view to achieving sustainable growth. We believe that the further prosperity of the PRC and continuous growth in demand of our services and products will provide the fuel for our business growth. With the effective execution of our business and investment plans, we believe that the Group is well prepared to become one of the leading and most successful participants in its arena.

SOFTWARE AND HARDWARE DISTRIBUTION

The turnover of software and hardware distribution businesses of the Group increased twenty fold to HK\$7.6 million (2000: HK\$359,713). The gross profit margin of the Group also improved to 12.8% (2000: 4.8%). The growth in turnover and a higher gross profit margin are mainly attributable to the Group's emphasis on the PRC market, which displays a strong demand for goods of software and hardware distribution.



- 18% GIS, GPS related contract services
- 29% Internal related contract services
- 53% Software and hardware sales



- 3% Hong Kong
- 97% Elsewhere in the PRC

Our People, Our Driving Force



• Mr. Liu Hao • Mr. Wang Guo Wei • Prof. He Xiao Feng • Prof. Hong Jun Yan • Prof. Zhou Qi Ming • Mr. Yick Chong San

Business Review

The Group invests actively in marketing activities. Since its inauguration in mid 2000, the marketing department has been participating in various fairs, exhibitions, conferences and seminars in a number of cities such as Beijing, Nanjing, Shenyang, Wuhan, Xian, Chengdu and Kunming. The Group will continue to enhance its corporate image and to strengthen customer loyalty through these activities.

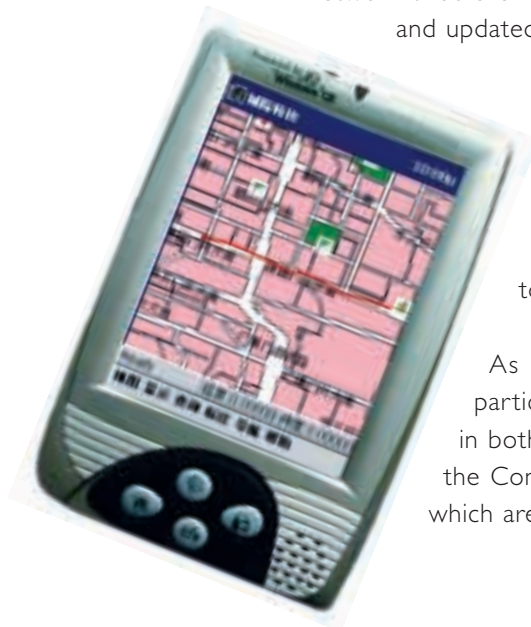
The expansion of our sales network will further improve our access to new customers and bolster customer satisfaction. The Group has established its Shenzhen representative office in



August 2001. It is planned that sales offices will also be established in other cities in the PRC as we believe that staff in the new offices will be more effective in interpreting the needs of their own cities and nearby cities and towns, thus better catering to their needs with our customized solutions. Furthermore, the expanded sales network will provide customers with easier access to our training, maintenance and technical support services.

SYSTEM INTEGRATION

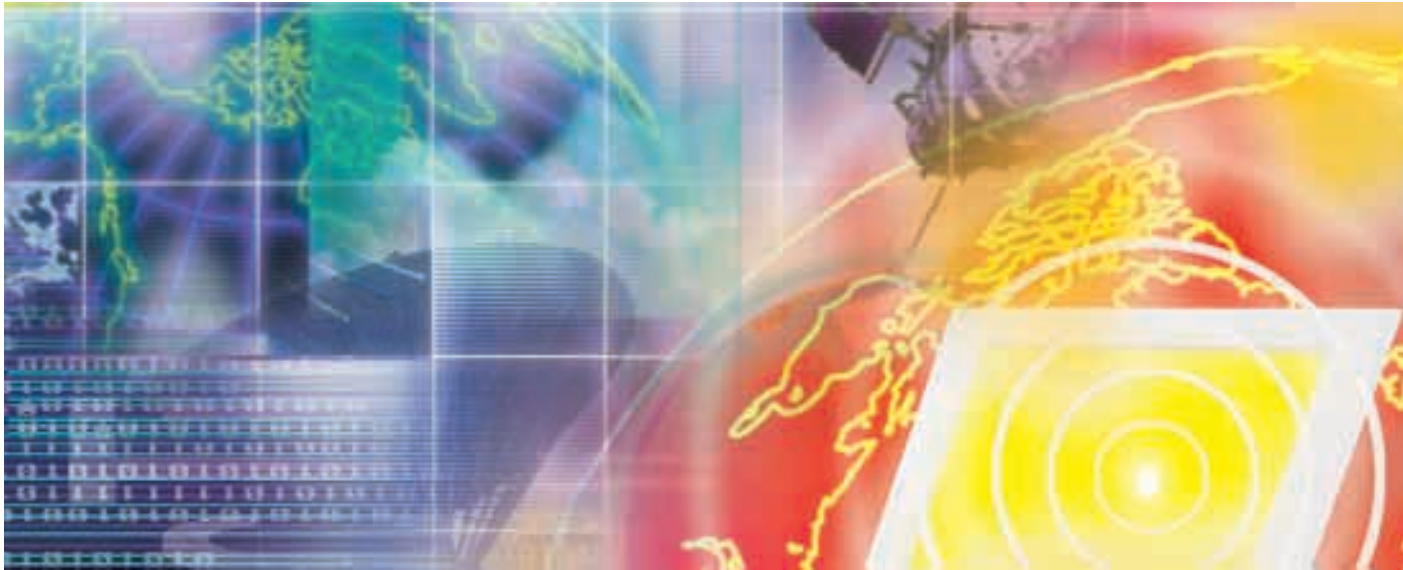
The gross profit margin of system integration business for the year improved to 44.4% (2000: 28.9%) due to improved efficiency and cost control. The broadening of the client base for software and hardware distribution has formed the foundation for expansion of the Group's system integration business. Also, continuous marketing activities and expansion of sales network should enhance sales by providing access to new customers, accurate and updated market information and higher service standards.



Establishment of the Group's three dimensional and virtual reality division under the project department in September 2000 provides the Group with additional competitive edge over competitors. The division has been making contribution since its establishment and adding value to our geographical related services.

As part of its business expansion, the Group is actively participating in the bidding for and negotiation of various projects in both Hong Kong and the PRC. The Directors are confident that the Company will be successful in bidding several of these projects which are considered to complement the Group's business plan.

Business Review



INVESTMENT

In September 2001, the Group acquired 52% and 25% of the share capitals of Xi'an Giahe Information Consultation Industry Company Limited and Wuhan GIS Information Technology Ltd. Corp. respectively for the agreed sum of approximately HK\$1.5 million. The Group only became aware of these opportunities in around July to August 2001, which was one to two months after the despatch of the prospectus of the Company on 18 May 2001. These acquisitions are in line with the Group's strategy to expand geographically in the PRC. The two companies have obtained approvals from the government to set up and operate GIS kiosks on the streets, in Xian and Wuhan. The Group will also enhance its presence in the two cities through these two companies, particularly in areas such as marketing, project bidding and project follow up.

The Group is also in negotiation with a wireless communication technology venture for business co-operation or investment. The venture is launching, by the end of this year, a new model of PDA equipped with GPS navigation features with one of the biggest PDA manufacturers and marketers in the PRC.

We are confident that, with our technical expertise and persistence, such encouraging opportunities will continue to be identified for the future growth of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2001, the Group had cash on hand amounting to HK\$65.5 million and net asset value of HK\$65 million. Current assets and current liabilities amounted to HK\$78.9 million and HK\$19.2 million respectively.

Business Review

FUTURE PLANS AND DEVELOPMENTS

The new millennium has presented unprecedented opportunities to the Group. China's imminent accession to the World Trade Organization and the enormous investment plan in infrastructure for the Olympic 2008 will inevitably increase the penetration of information technology in every walk of life in China.

In order to keep ahead of competitors, the Group places heavy emphasis on research and development. Our research and development team is constantly upgrading existing systems, and at the same time, realising and commercialising technological breakthroughs. The co-operation with institutions including various faculties in Peking University and Qinghua University will continue to ensure a major source of first class talents and technologies.

The gradual realisation of our investment plan and geographical expansion will allow the Group to enhance its influence by horizontal and vertical integration. The potential formation of joint ventures with customers, like a residential property developer, will ensure a steady demand of the Group's technology. Investment in businesses that possess readily available data and technologies will further foster the competitiveness of the Group.

Comparison Of Business Objectives With Actual Business Progress

MODIFICATION TO THE USE OF PROCEEDS

Following the listing of the Company's shares on the GEM on 1 June 2001 and up to 30 June 2001, the Group has utilised approximately HK\$1.0 million of the net proceeds of the Share Offer. Approximately HK\$0.5 million was spent on geographic expansion and marketing, and another HK\$0.5 million was spent on research and development. This differs from the intended use of the net proceeds of the Share Offer earmarked for the period from 11 May 2001, being the latest practicable date for ascertaining certain information in the prospectus, and up to 30 June 2001 (the "Relevant Period") as stated in the prospectus of the Company dated 18 May 2001 (the "Prospectus").

According to the Prospectus of the Company, the Group plans to use a total of HK\$21.1 million of the net proceeds of the Share Offer during the Relevant Period, and particularly (i) HK\$0.6 million for geographic expansion and marketing, (ii) HK\$1.0 million for research and development, (iii) HK\$12.5 million for setting up joint ventures, and (iv) HK\$7.0 million for investments in research and data centers. As at the date of this annual report, none of the net proceeds of the Share Offer has been spent for items (iii) and (iv) referred to above.

The prolonged negotiation relating to various joint venture investments has resulted in a delay in the execution of the Group's investment plan. The Group is currently in negotiation with a leading vehicle producer in Mainland China for the supply and installation of hardware used in vehicle global positioning system. The Group envisages that the proposed investments will be concluded by the end of this year.

The Group has explored numerous potential investments in research and data centers but as at the date of this annual report, no agreement has been concluded for this purpose. The Group intends to continue its search in this area and part of the net proceeds of the Share Offer will be applied as indicated in the Prospectus once a suitable investment is found.

Comparison Of Business Objectives With Actual Business Progress

According to the business objectives as stated in the Prospectus for the Relevant Period

Actual business progress for the Relevant Period

BUSINESS DEVELOPMENT

- | | |
|---|---|
| <ul style="list-style-type: none"> ● To complete the three projects on hand | <p>Two of the projects have been completed and accepted by clients by June 2001. The last one is in the progress of final inspection.</p> |
| <ul style="list-style-type: none"> ● To negotiate and co-operate with a property developing group to launch a three dimensional and virtual reality property sales display system and a broadband LAN property management system | <p>The Group is still in negotiation with a developing group for the co-operation in launching the services.</p> |
| <ul style="list-style-type: none"> ● To negotiate and set up a joint venture with a leading vehicle producer in Mainland China for the supply and installation of hardware used in vehicle global positioning systems | <p>The Group is still in negotiation with a leading vehicle producer for the establishment of the proposed joint venture.</p> |

RESEARCH AND DEVELOPMENT

- | | |
|---|--|
| <ul style="list-style-type: none"> ● To collect and analyse users' feedback on CyberTown and set out the upgrade plan for CyberTown | <p>The upgrade plan has been formulated according to the users' feedback received.</p> |
| <ul style="list-style-type: none"> ● To convene conferences with representatives from Peking University, Tsinghua University and the Chinese Academy of Science for exploration of future development in applications and integration of 3S, internet and networking, and virtual reality. | <p>The Group has been actively working together with the three institutes in both technological advancements and business development. Conferences have not yet been convened.</p> |

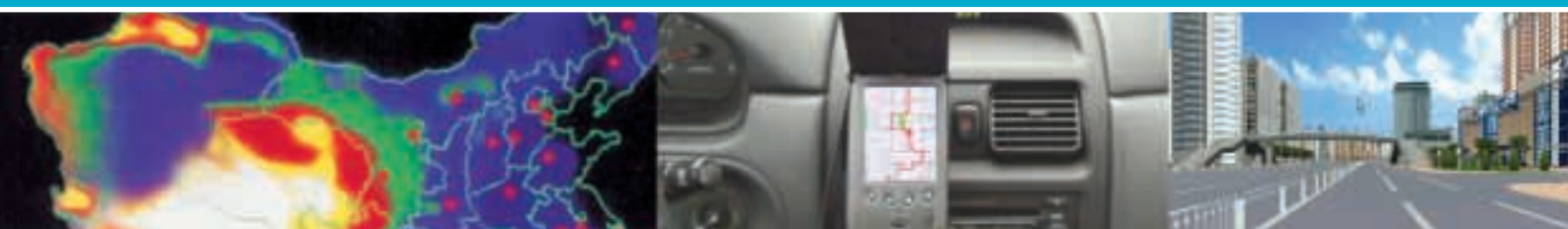
Comparison Of Business Objectives With Actual Business Progress

According to the business objectives as stated in the Prospectus for the Relevant Period

Actual business progress for the Relevant Period

MARKETING

- | | |
|--|---|
| <ul style="list-style-type: none"> ● To start the promotion of the Group's application products and services on the web and in industrial journals. | <p>Details of the products and services offered by the Group are contained on the Group's website. Also, the Group has placed advertisements on various journals, including "Digital Beijing", "Digital Wealth", "Computer World", "3S World", "Geology and Land Resources Management".</p> |
| <ul style="list-style-type: none"> ● To build up a customer database of existing and potential customers according to attributes like business areas and their application interest areas | <p>The customer database has been built up in August 2001.</p> |
| <ul style="list-style-type: none"> ● To set up the first batch of sales offices in Shanghai, Guangzhou, Chongqing, Xingjiang, Xian, Wuhan and Harbin. | <p>The Group has established its Shenzhen office in August 2001. Also, the investment in two companies in Xian and Wuhan in September 2001, is also a part of the expansion of the sales network.</p> |
| <ul style="list-style-type: none"> ● To sponsor and attend relevant seminars and conferences. | <p>The Group has sponsored and attended various seminars and conferences, including "GIS Annual Seminar, China", "International 3S Technology Seminar", "Digital City, Mayor Forum, China" etc..</p> |



From strength
to **strength**

Profile Of Directors And Senior Management

DIRECTORS

Executive Directors

Prof. He Xiao Feng (何小鋒), M.A., aged 46, is one of the founders of the Group and the Chairman of the Company. He is primarily responsible for corporate policy formulation, business strategic planning, business development and overall management of the Group. Prof. He holds a master's degree in economics from Peking University and has more than eight years of experience in finance, securities and business management. He is also a professor of the School of Economics and the Deputy Director of the Capital Development Institute of Peking University. Prof. He won the An Tze Jie Award for International Trade (安子介國際貿易獎) from the Ministry of Economy and Trade of China in 1999 and the Social Science Award of Peking University in 1984. Prof. He joined the Group on 12th May, 1999.

Mr. Liu Hao (劉浩), M.Eng., B.Sc., aged 32, is one of the founders of the Group and the Chief Executive Officer of the Company. Mr. Liu is an associate professor and a doctorate candidate of the Institute of Remote Sensing Applications, the Chinese Academy of Science. He has extensive experience and knowledge in theories and applications of technology in GIS, GPS and RS. Mr. Liu is responsible for the Group's strategic planning, formulation of corporate policies, research and development, and business development. Mr. Liu joined the Group on 12th May, 1999.

Mr. Wang Guo Wei (王國偉), M.Econ., B.Sc., aged 32, is one of the founders of the Group, the Chief Operating Officer of the Company and the chairman of Beijing Spatial Port Network Technology Ltd. ("Beijing Spatial Port"). Mr. Wang oversees the daily operation of the Group including project management, sales and marketing, business development, human resources management and office administration. Mr. Wang holds a bachelor's degree in Geology from Peking University and a master's degree in Economics from Jilin University. He has extensive experience in the design, construction and management of highways and was the deputy general manager of Jilin Wo Ken Biological Engineering Co., Ltd., during 1995 to 1998. He was employed as a senior management at the hi-tech industrial centre of Jilin Highway Development Co., Ltd. and Jilin Automobile Industry Trade Group during 1998 to 1999. Mr. Wang has extensive experience in the company daily operation and company management. Mr. Wang joined the Group on 12th May, 1999.

Mr. Yick Chong San (易仲申), ACCA, B.A., aged 32, is one of the founders and the Chief Financial Officer of the Group. Mr. Yick holds a bachelor's degree in accounting from the City University of Hong Kong and is an associate member of the Association of Chartered Certified Accountants in the United Kingdom. He has more than eight years' experience in accounting and auditing and has worked in an international electric appliance manufacturer and an international accountancy firm for more than four years. Mr. Yick is responsible for the overall financial and accounting functions and management of the Group. Mr. Yick joined the Group on 12th May, 1999.

Independent Non-executive Directors

Prof. Hong Jun Yan (洪君彥), B.A., M.A., aged 69, is a professor of the Department of International Economics of Peking University. Prof. Hong holds a master's degree in arts from Peking University and a bachelor's degree in arts from Yenching University. He has extensive teaching and research experience in business and economics. In

Profile Of Directors And Senior Management

the 1980s, Prof. Hong was granted a research fellowship by Columbia University and University of Michigan, Ann Arbor in the United States. He has also been teaching at Peking University for more than 40 years. Prof. Hong was appointed as an independent non-executive Director on 4th May, 2001.

Prof. Zhou Qi Ming (周啟鳴), *B.Sc., Ph.D.*, aged 44, is an associate professor of the Department of Geography at the Hong Kong Baptist University. Prof. Zhou holds a doctor's degree in philosophy from the School of Geography at the University of New South Wales, Australia. Before joining the Hong Kong Baptist University in 1997, he has taught at the University of New South Wales since 1990. Apart from teaching, Prof. Zhou has also been a consultant providing advice on GIS to various organisations such as the Lands Department and Agricultural and Fishery Department of Hong Kong, Asian Development Bank, The Ministry of Science and Technology in Mainland China and the United Nations. He was appointed as an independent non-executive Director on 4th May, 2001.

SENIOR MANAGEMENT

Dr. Tan Zhong Jun (譚仲軍), *Ph.D.*, aged 34, is a director and President of Beijing Spatial Port. He is also the Vice Chairman of the technological training department of the National RS Centre and a member of the Remote Sensing, Remote Metering, Remote Controlling Committee in Mainland China. Dr. Tan is responsible for the sales and marketing, customer services, and after-sale technical support functions of the Group. Prior to joining the Group, Dr. Tan had been involved in projects like the remote sensing monitoring and evaluation of draught, the remote sensing infra-red elaboration of damage caused by flooding in the Three Gorges, and the continuous development of Panzhihua City with the employment of spatial information system. Dr. Tan joined the Group on 12th May, 1999.

Prof. Yang Kai Zhong (楊開忠), *Ph.D.*, aged 39, is a director of Beijing Spatial Port. Prof. Yang is the chairman of both the Urban and Environmental Sciences Department and the RS and GIS Institute of Peking University. He is also the Deputy Chairman of the Capital Development Institute of Peking University and a committee member of the National RS Center Experts Committee, Mainland China. Prof. Yang possesses an excellent combination of economic and technological knowledge which provides significant value to the Group's development. Prof. Yang is one of the Initial Management Shareholders. Prof. Yang joined the Group on 12th May, 1999.

Dr. Kong Yun Feng (孔云峰), *Ph.D.*, aged 34, is a Vice President (Marketing) of Beijing Spatial Port. Mr. Kong completed his bachelor's degree in surveying engineering in Guilin College of Geology in 1989. He then obtained his master's degree in land information system from Tongji University, Shanghai in 1992. From 1992 to 1995, he was a manager of a high technology group responsible for the software development of Chinese desktop word processing and point of sales systems. From 1995 to 1997, he was the chief engineer of another group engaged in management information systems. Prior to joining the Group in November 2000, Dr. Kong worked in Department of Geography, the Chinese University of Hong Kong as a teaching assistant.

Dr. Liu Yue Feng (劉岳峰), *Ph.D.*, aged 31, is the Vice President (Projects) and Chief Technology Officer of Beijing Spatial Port. He has extensive experience in projects management and participated in many important geospatial projects which included "The impact of the rise of sea level caused by global warming on the coastal cities of Mainland China" commissioned by the National Natural Science Fund, "The management information

Profile Of Directors And Senior Management

system on the spatial information of the water environment of Yangtzi River in Wuhan” and “City GIS for publication”. Dr. Liu is primarily responsible for the project management of the Group. He joined the Group in May 1999.

Mr. Xing Ye (邢耶), *Senior Engineer*, aged 47, is the Manager of the Research and Development Center of Beijing Spatial Port. Mr. Xing holds a bachelor's degree in science from the Jilin University. Prior to joining the Group in February 2000, he was responsible for the research work at the Geological Institute for the Chemical Mineral Ministry of Chemical Industry, a governmental unit responsible for the research and applications of chemical minerals, from 1985 to 1999. Mr. Xing focuses on the research and development of GIS, GPS and RS.

Ms. Yuan Ping (袁平), *LLB.*, aged 36, is the Sales and Marketing Manager of Beijing Spatial Port. Ms. Yuan holds a bachelor's degree in law from Peking University. She has extensive experience in managing sales networks and organising promotional activities. Before joining the Group, Ms. Yuan was in charge of the sales and marketing function of Found Soft Technical and Development Co., Ltd., a company engaged in sales of software, from 1997 to 1999. She joined the Group in April 2000.

Prof. Wu Lun (鄔倫, 曾用名鄔倫), *Ph. D.*, aged 36, is a director of Beijing Spatial Port and one of the Initial Management Shareholders. Prof. Wu is one of the most prominent figures in GIS, RS and GPS software development and system integration in Mainland China. He is a professor of the Department of Urban and Environmental Sciences and the chairman of the GIS office of Peking University in Mainland China. He is also a consultant of the United Nation's Development Programme, and the United Nation's Food and Agriculture Organisation. Prof. Wu won the Chinese Science Academy's Technological Advancement Award in 1995. He is responsible for the research and development activities of the Group. Prof. Wu joined the Group on 12th May, 1999.

Mr. Jin Hai Long (金海龍), aged 25, is the Deputy Manager of the Research and Development Centre of Beijing Spatial Port. He holds a bachelor's degree in Transportation and Computer Science from Jilin University of Technology. Prior to joining the Group in February 2000, he worked as a software development engineer in Shenyang First Transportation Co., Ltd., a company engaged in the business of transportation and logistics, and product engineer in Found Soft Technical and Development Co., Ltd.

Report Of The Directors

The directors herein present their first annual report and the audited financial statements of the Company for the period from 14 September 2000 (date of incorporation) to 30 June 2001 and of the Group for the year ended 30 June 2001.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 September 2000 under the Companies Law (2001 Revision) of the Cayman Islands under the name of Cyber World Group Limited. By a special resolution of the sole shareholder of the Company dated 15 March 2001, the name of the Company was changed to its present name on 20 March 2001.

Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 4 May 2001 (the "Reorganisation"). Further details of the Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 11 and 15 to the financial statements and in the Company's prospectus dated 18 May 2001.

The shares of the Company began trading on the GEM of the Stock Exchange on 1 June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 11 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Report Of The Directors

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 30 June 2001 is as follows:

	Turnover		Profit/(loss) from operating activities	
	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$
By activity:				
Provision of information technology contract services				
Internet related	4,087,107	15,357,000	(950,357)	7,418,010
GIS, GPS related	2,532,152	8,135,145	215,596	(4,250,439)
Sale of software and hardware	7,609,569	359,713	(3,249,544)	(38,017)
	14,228,828	23,851,858	(3,984,305)	3,129,554
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong	486,954	15,357,000	(2,808,889)	7,916,633
Elsewhere	13,741,874	8,494,858	(1,175,416)	(4,787,079)
	14,228,828	23,851,858	(3,984,305)	3,129,554

RESULTS AND DIVIDENDS

The Group's loss for the year ended 30 June 2001 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 27 to 50.

The directors do not recommend the payment of any final dividend in respect of the year ended 30 June 2001.

Report Of The Directors

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined results of the Group for the last two financial periods prepared on the basis set out in note 1 below:

	Year ended 30 June 2001 HK\$'000	Period from 12 May 1999 to 30 June 2000 HK\$'000
TURNOVER	14,229	23,852
PROFIT/(LOSS) BEFORE TAX	(3,984)	3,130
Tax	—	(316)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(3,984)	2,814
TOTAL ASSETS	83,732	29,503
TOTAL LIABILITIES	19,208	26,689

Notes:

1. The summary of the combined results for the period ended 30 June 2000 has been extracted from the Company's prospectus dated 18 May 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial period, or since the date of incorporation of the companies where this is a shorter period and is presented on the basis set out in note 3 to the financial statements. The results of the Group for the year ended 30 June 2001 are those set out on page 27 of the financial statements.
2. To date, the only published audited consolidated balance sheet of the Group is that set out on page 28 of the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 10 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 11 to the financial statements.

Report Of The Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the period from 14 September 2000 (date of incorporation) to 30 June 2001, together with the reasons therefor, and details of the Company's share option scheme are set out in note 15 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 June 2001, the Company's reserves available for distribution amounted to HK\$5,408,135. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 83% of the total sales for the year and sales to the largest customer included therein amounted to 37%. Purchases from the Group's five largest suppliers accounted for 98% of the total purchases for the year and purchases from the largest supplier included therein amounted to 36%.

To the best of the directors' knowledge, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

Report Of The Directors

DIRECTORS

The directors of the Company since 14 September 2000 (date of incorporation) and at the date of this annual report were as follows:

Executive directors:

He Xiao Feng	(appointed on 27 September 2000)
Wang Guo Wei	(appointed on 27 September 2000)
Liu Hao	(appointed on 27 September 2000)
Yick Chong San	(appointed on 14 September 2000)

Independent non-executive directors:

Hong Jun Yan	(appointed on 4 May 2001)
Zhou Qi Ming	(appointed on 4 May 2001)
Cheung Yee Man	(appointed on 27 September 2000 and resigned on 4 May 2001)

In accordance with the Company's articles of association, Mr. Yick Chong San and Mr. Zhou Qi Ming will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and of the five highest paid employees in the Group are set out in note 6 to the financial statements.

Report Of The Directors

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares held and nature of interest		
	Personal	Corporate	Total
He Xiao Feng	—	163,176,471 [#]	163,176,471
Yick Chong San	—	105,921,569 [#]	105,921,569
Liu Hao	1,200,000	—	1,200,000
Wang Guo Wei	1,920,000	—	1,920,000

[#] 105,921,569 shares of the Company are held by Cyber Town Company Limited and are beneficially owned as to 35% by Mr. He Xiao Feng and 30% by Mr. Yick Chong San. In addition, 57,254,902 shares of the Company are held by Cyber City Technology Limited and are beneficially owned as to 30% by Mr. He Xiao Feng.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), on 14 May 2001, the Company granted certain options to the following directors which entitle the holders to subscribe for ordinary shares of the Company. Details of the Pre-IPO Share Option Scheme are set out in note 15 to the financial statements. No share option was exercised by any director during the year.

Details of the share options outstanding at the balance sheet date are as follows:

Name of director	Date of grant	Number of options	Exercise price
		outstanding at 30 June 2001	of options HK\$
He Xiao Feng	14 May 2001	4,000,000	0.6
Wang Guo Wei	14 May 2001	1,760,000	0.6
Liu Hao	14 May 2001	8,160,000	0.6
Yick Chong San	14 May 2001	5,760,000	0.6
Hong Jun Yan	14 May 2001	400,000	0.6
Zhou Qi Ming	14 May 2001	400,000	0.6

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report Of The Directors

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Percentage of share holding
Global Eagle Investments Limited	114,509,804	27.59%
Cyber Town Company Limited*	105,921,569	25.52%
Cyber City Technology Limited**	57,254,902	13.80%

Notes:

* Cyber Town Company Limited is beneficially owned as to 35% by Mr. He Xiao Feng and as to 30% by Mr. Yick Chong San.

** Cyber City Technology Limited is beneficially owned as to 30% by Mr. He Xiao Feng.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

NEW FUNDING

As a result of the listing of the Company's shares on GEM and the share placement, the Company obtained net cash proceeds of approximately HK\$57 million. The Company currently intends to use these proceeds for the following purposes:

1. Research and development of technology in GIS, GPS and RS for their commercial applications in areas such as community management;
2. Investment in two technological research centres and one data centre;
3. The setting up of a joint venture with property developers offering virtual reality and digital community management services;
4. The setting up of a joint venture for the supply and installation of GPS automatic vehicle locators;
5. Geographical expansion of the Group's sales network and after-sales services in the PRC;
6. Conferencing, marketing and promotional activities; and
7. General working capital.

For further details of such new funding and the intended use of the net proceeds from the share placement, please refer to page 96 of the Company's prospectus dated 18 May 2001.

Report Of The Directors

SPONSOR'S INTEREST

Anglo Chinese Corporate Finance, Limited has confirmed:

- (i) neither itself nor its associates has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Riverhill Group (including options or rights to subscribe such securities);
- (ii) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited who are involved in providing advice to the Company has or may have, any interest in any class of securities of the Company or any other company within the Riverhill Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such Directors or employee pursuant to the Share Offer);
- (iii) neither itself nor its associates accrued any material benefit as a result of the successful outcome of the listing of the shares of the Company on the GEM; and
- (iv) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited has a directorship in the Company or any other company within the Riverhill Group.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the directors nor the substantial shareholders of the Company had any interest in any business that directly or indirectly competed with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee comprising two non-executive directors of the Company on 4 May 2001, with written terms of reference for the purpose of reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee had held meeting for two times since its formation.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company during the year. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chairman

He Xiao Feng

Hong Kong
17 September 2001

Report Of The Auditors



To the members

Riverhill Holdings Limited

(Formerly known as Cyber World Group Limited)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 50 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 an 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 of the Group as at 30 June 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.

Ernst & Young

Certified Public Accountants

Hong Kong

17 September 2001

Consolidated Profit And Loss Account

Year ended 30 June 2001

	Notes	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$
TURNOVER	4	14,228,828	23,851,858
Cost of sales		(10,318,442)	(17,055,189)
Gross profit		3,910,386	6,796,669
Other revenue		1,739,119	8,825
Selling and distribution costs		(890,787)	(163,547)
General and administrative expenses		(7,936,204)	(3,512,393)
Other expenses		(806,819)	—
PROFIT/(LOSS) BEFORE TAX	5	(3,984,305)	3,129,554
Tax	7	—	(316,000)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	8	(3,984,305)	2,813,554
Earnings/(loss) per share — basic	9	(1.29 cents)	0.96 cent

Other than the net loss attributable to shareholders for the year, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

Consolidated Balance Sheet

30 June 2001

	Notes	2001 HK\$	2000 HK\$
NON-CURRENT ASSETS			
Fixed assets	10	4,867,143	6,944,315
CURRENT ASSETS			
Inventories	12	1,392,879	654,015
Trade receivables		8,960,814	2,757,000
Prepayments, deposits and other receivables		2,977,364	7,188,104
Cash and bank balances		65,533,354	11,959,447
		78,864,411	22,558,566
CURRENT LIABILITIES			
Other payables and accrued liabilities		2,730,855	1,503,545
Trade payables		2,570,255	998,989
Deferred revenue		—	2,403,531
Tax payable		316,000	316,000
Due to a director	13	—	168,628
Due to a shareholder	14	13,591,000	—
		19,208,110	5,390,693
NET CURRENT ASSETS		59,656,301	17,167,873
TOTAL ASSETS LESS CURRENT LIABILITIES		64,523,444	24,112,188
NON-CURRENT LIABILITIES			
Due to shareholders	14	—	21,297,861
		64,523,444	2,814,327
CAPITAL AND RESERVES			
Issued capital	15	41,500,000	773
Reserves	16	23,023,444	2,813,554
		64,523,444	2,814,327

Yick Chong San
Director

Liu Hao
Director

Consolidated Cash Flow Statement

Year ended 30 June 2001

	Notes	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$
NET CASH INFLOW /(OUTFLOW) FROM OPERATING ACTIVITIES	17(a)	(4,277,197)	2,341,363
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		1,458,511	—
Net cash inflow from returns on investment and servicing of finance		1,458,511	—
INVESTING ACTIVITIES			
Purchases of fixed assets		(832,853)	(22,125,130)
Proceeds from disposal of fixed assets		38,885	10,444,580
Net cash outflow from investing activities		(793,968)	(11,680,550)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(3,612,654)	(9,339,187)
FINANCING ACTIVITIES	17(b)		
Gross proceeds from issue of share capital		69,000,000	773
Share issue expenses		(12,022,207)	—
Advances from shareholders		208,768	21,297,861
Net cash inflow from financing activities		57,186,561	21,298,634
INCREASE IN CASH AND CASH EQUIVALENTS		53,573,907	11,959,447
Cash and cash equivalents at beginning of year/period		11,959,447	—
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		65,533,354	11,959,447
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		65,533,354	11,959,447

Balance sheet

30 June 2001

	Notes	HK\$
<hr/>		
NON-CURRENT ASSETS		
Interests in subsidiaries	11	1,080,601
<hr/>		
CURRENT ASSETS		
Prepayments, deposits and other receivables		1,031,685
Cash and bank balances		61,335,568
<hr/>		
		62,367,253
<hr/>		
CURRENT LIABILITIES		
Other payables and accrued liabilities		251,726
<hr/>		
NET CURRENT ASSETS		62,115,527
<hr/>		
		63,196,128
<hr/>		
CAPITAL AND RESERVES		
Issued capital	15	41,500,000
Reserves	16	21,696,128
<hr/>		
		63,196,128
<hr/>		

Yick Chong San
Director

Liu Hao
Director

Notes To The Financial Statements

30 June 2001

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 September 2000. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 2001 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group (as detailed in note 11) on 4 May 2001. This was accomplished by acquiring the entire issued share capital of Cyber World Technology Limited in consideration of and in exchange for the Company's allotted and issued share capital. Further details of the Reorganisation and of the subsidiaries acquired pursuant thereto, are set out in notes 15 and 11 to the financial statements, respectively and in the Company's prospectus dated 18 May 2001.

2. CORPORATE INFORMATION

The Company was principally engaged in investment holding. The Group was engaged in the provision of information technology contract services and software and hardware distribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements have been prepared using the merger basis of accounting. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of acquisition on 4 May 2001. Accordingly, the consolidated results of the Group for the period from 12 May 1999 (date of incorporation of Cyber World Technology Limited, which is the immediate holding company of the other subsidiary listed in note 11 below) to 30 June 2000 and for the year ended 30 June 2001 include the results of the Company and its subsidiaries effective from 12 May 1999 or since their respective dates of incorporation, where this is a shorter period. The consolidated balance sheet as at 30 June 2000 has been prepared on the basis that the existing Group structure had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

The Company was incorporated on 14 September 2000, accordingly, no comparative amounts have been presented for the Company's balance sheet.

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

Notes To The Financial Statements

30 June 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Computer equipment and software	33 $\frac{1}{3}$ %
Furniture, fixtures, motor vehicles and equipment	20%

The gain or loss on disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are available for sale.

Notes To The Financial Statements

30 June 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories represent trading merchandise and costs incurred for contract work in progress and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of contract work in progress, comprises direct material, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred revenue

Deferred revenue represents contract service fees received in advance. Revenue is recognised and deferred revenue is released to the profit and loss account when the corresponding services are rendered.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Related parties

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

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Notes To The Financial Statements

30 June 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees in Hong Kong. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

In addition, retirement benefits are paid by the PRC subsidiary to the PRC employees who, at their own discretion, contribute to the retirement benefit plans managed by the relevant authorities of the provinces/municipalities in the PRC in which they operate. The retirement benefits paid by the PRC subsidiary are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement benefits to the PRC employees.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the provision of contract services, based on the stage of completion of the respective contracts, which is determined with reference to the terms of the contracts;
- (b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) income from the provision of training courses, in the period in which such services are provided; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Notes To The Financial Statements

30 June 2001

4. TURNOVER AND REVENUE

Turnover represents the value of services rendered and the net invoiced value of goods sold, after allowances for returns, trade discounts and sales tax.

	Year ended 30 June 2001 HK\$	Group Period from 12 May 1999 to 30 June 2000 HK\$
Sales of software and hardware	7,643,207	418,563
Provision of information technology contract services		
Internet related	4,465,970	15,357,000
GIS, GPS related	2,962,616	8,631,308
Sales tax, discounts and allowances	(842,965)	(555,013)
Turnover	14,228,828	23,851,858
Interest income	1,458,511	8,633
Other income	280,608	192
Other revenue	1,739,119	8,825
Total revenue	15,967,947	23,860,683

Notes To The Financial Statements

30 June 2001

5. PROFIT/(LOSS) BEFORE TAX

This is arrived at after charging/(crediting):

	Year ended 30 June 2001 HK\$	Group Period from 12 May 1999 to 30 June 2000 HK\$
Cost of inventories sold	6,637,037	342,293
Cost of services rendered	3,681,405	16,712,896
Auditors' remuneration	420,000	180,000
Depreciation	2,871,140	4,736,427
Operating lease rentals in respect of land and buildings	828,014	361,564
Staff costs (including directors' remuneration — note 6)	4,173,442	1,273,983
Pension contributions*	219,155	39,481
Less: Amount capitalised into contract work in progress	(250,812)	—
	4,141,785	1,313,464
Research and development costs	806,819	—

* During the year, there were no forfeited contributions available to offset the Group's pension contributions. At 30 June 2001, there were no forfeited contributions available to reduce contributions in future years.

Notes To The Financial Statements

30 June 2001

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance is as follows:

	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$
Independent non-executive directors:		
Fees	10,000	—
Executive directors:		
Fees	119,366	—
Salaries and allowances	459,986	59,346
Bonuses	312,000	—
Pension scheme contribution	9,134	—
	900,486	59,346
	910,486	59,346

The remuneration of the above directors during the year fell within the following band:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	7	4

The four executive directors received individual emoluments (fees, salaries and allowances, bonuses, pension scheme contribution) of HK\$372,603, HK\$241,000, HK\$241,383 and HK\$45,500, respectively for the year ended 30 June 2001.

The four executive directors received individual emoluments (salaries and allowances) of HK\$30,615, HK\$28,731, nil and nil, respectively for the period ended 30 June 2000.

The three non-executive directors received individual emoluments (fees) of HK\$10,000, nil and nil, respectively for the year ended 30 June 2001.

Notes To The Financial Statements

30 June 2001

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors' remuneration (continued)

During the year, certain options to acquire shares in the Company were granted to certain directors as set out in the section "Directors' rights to acquire shares" in the Report of the Directors. In the absence of a readily available market value for options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of these options, and accordingly, no value in respect of share options granted during the year was included in the directors' remuneration.

As detailed in note 15(d) to the financial statements, pursuant to the Pre-IPO Issue (as defined therein), on 2 May 2001, 3,120,000 shares of HK\$0.10 each of the Company was issued to certain directors. On the same date, a subsidiary proposed a discretionary bonus of HK\$312,000 in favour of these directors which was applied to pay up the above shares. The bonus has been disclosed in the above as directors' remuneration.

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

(b) Five highest paid employees

The five highest paid employees during the year included three (Period ended 30 June 2000: two) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2000: three) highest paid, non-director individuals are as follows:

	Year ended 30 June 2001 HK\$	Period from 12 May 1999 to 30 June 2000 HK\$
Salaries, allowances and benefits in kind	384,579	92,804
Pension scheme contributions	11,000	—
	395,579	92,804

The remuneration of the non-director, highest paid employees during the year fell within the following band:

	Number of employees 2001	2000
Nil to HK\$1,000,000	2	3

Notes To The Financial Statements

30 June 2001

7. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong.

Beijing Spatial Port Network Technology Ltd., the Company's subsidiary, is located in Haidan District, Beijing, one of the PRC's "High Technology Industrial Development Zones". In accordance with the relevant tax rules and regulations in the PRC, the company is entitled to exemption from corporate income tax ("CIT") for the three years from 2000 to 2002, and is entitled to a 50% exemption from CIT for the next three years from 2003 to 2005. It is subject to CIT at a reduced rate of 15%. The company did not generate any assessable profits during the year.

Deferred tax liabilities have not been provided as there were no significant timing differences at the balance sheet date (2000: Nil).

8. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$410,072.

9. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$3,984,305 (2000: net profit of HK\$2,813,554) and on the weighted average number of 309,583,333 ordinary shares (2000: pro forma number of 292,000,000 ordinary shares deemed to be in issue as further described in note 15) in issue during the year.

The diluted loss per share has not been presented as the outstanding options had an anti-dilutive effect on the basic loss per share for the year.

Notes To The Financial Statements

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10. FIXED ASSETS

GROUP

	Computer equipment and software HK\$	Furniture, fixture, motor vehicles and equipment HK\$	Total HK\$
Cost:			
At beginning of year	8,526,298	102,832	8,629,130
Additions	319,203	513,650	832,853
Disposals	(33,445)	(8,692)	(42,137)
At 30 June 2001	8,812,056	607,790	9,419,846
Accumulated depreciation:			
At beginning of year	1,677,902	6,913	1,684,815
Provided for the year	2,803,634	67,506	2,871,140
Disposals	(2,508)	(744)	(3,252)
At 30 June 2001	4,479,028	73,675	4,552,703
Net book value:			
At 30 June 2001	4,333,028	534,115	4,867,143
At 30 June 2000	6,848,396	95,919	6,944,315

11. INTERESTS IN SUBSIDIARIES

	COMPANY 2001 HK\$
Unlisted investments, at cost	5,008,263
Amounts due to subsidiaries	(3,927,662)
	1,080,601

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes To The Financial Statements

30 June 2001

11. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cyber World Technology Limited	British Virgin Islands/ Hong Kong	US\$102	100	—	Investment holding and provision of information technology contract services
Beijing Spatial Port Network Technology Ltd. ("Beijing Spatial Port")	People's Republic of China	HK\$2,000,000	—	100	Provision of information technology contract services and software distribution

According to the relevant laws and regulations applicable to wholly foreign owned enterprises in the PRC, Beijing Spatial Port is required to appropriate a certain amount of its profit after tax to its statutory surplus reserve and staff bonus and welfare reserve. 10% of Beijing Spatial Port's profit after tax must be appropriated to the statutory reserve each year until the total amount of that reserve reaches a level equivalent to 50% of the registered capital of Beijing Spatial Port. For the staff bonus and welfare reserve, the amount to be appropriated will be at the discretion of the board of Beijing Spatial Port.

As at 30 June 2001, no such appropriation to the above reserves has been made by Beijing Spatial Port as Beijing Spatial Port incurred losses since its registration. Appropriation will be made to these reserves once Beijing Spatial Port generates sufficient profits to cover its accumulated losses.

The statutory surplus reserve can be used to offset prior years' losses, capitalise into share capital and expand the production and operation. The staff bonus and welfare reserve can only be utilised on capital items for employees' collective welfare.

12. INVENTORIES

	GROUP	
	2001 HK\$	2000 HK\$
Contract work in progress	334,345	134,711
Merchandise for sale	1,058,534	519,304
	1,392,879	654,015

Notes To The Financial Statements

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13. DUE TO A DIRECTOR

The balance was unsecured, interest-free and was fully repaid during the year.

14. DUE TO SHAREHOLDERS

Name of shareholder	GROUP	
	2001 HK\$	2000 HK\$
Global Eagle Investments Limited ("Global Eagle")	13,591,000	13,591,000
Cyber Town Company Limited ("Cyber Town")	—	7,706,861
	13,591,000	21,297,861

The amount due to Global Eagle was unsecured and non-interest-bearing up to 30 June 2001. The amount is unsecured, interest-bearing at Hong Kong prime rate per annum, and is repayable in twelve equal monthly instalments starting from 1 July 2001.

The amount due to Cyber Town was unsecured and interest-free. During the year, on 2 May 2001, two shares of US\$1 each of Cyber World Technology Limited, a subsidiary of the Company, were issued to Cyber Town to capitalise this balance.

15. SHARE CAPITAL

Shares	2001 HK\$
Authorised:	
800,000,000 ordinary shares of HK\$0.10 each	80,000,000
Issued and fully paid:	
415,000,000 ordinary shares of HK\$0.10 each	41,500,000

Notes To The Financial Statements

30 June 2001

15. SHARE CAPITAL (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 14 September 2000 (date of incorporation) to 30 June 2001.

- (a) On incorporation, the authorised share capital of the Company was HK\$10,000 divided into 10,000 shares of HK\$1 each. One share of HK\$1 was issued and allotted, credited as fully paid, to the subscriber of the Company.
- (b) On 6 April 2001, the share capital of the Company was subdivided into 10 issued shares of HK\$0.1 each and 99,990 unissued shares of HK\$0.10 each.
- (c) On 23 April 2001, the authorised share capital of the Company was increased from HK\$10,000 to HK\$80,000,000 by the creation of an additional 799,900,000 shares of HK\$0.10 each ranking *pari passu* in all respects with the existing share capital of the Company.
- (d) On 2 May 2001, an aggregate of 8,000,000 shares of HK\$0.10 each were issued to certain directors, employees and members of the technological and management advisory board of the Group at a consideration of HK\$0.10 each (the "Pre-IPO Issue"). On the same date, Cyber World Technology Limited proposed a discretionary bonus of HK\$800,000 in favour of each of the above allottees which was applied to pay up the above shares to be allotted.
- (e) On 4 May 2001, as part of the Reorganisation described in note 1, the Company allotted and issued an aggregate of 101,990 new shares of HK\$0.10 each credited as fully paid at par, in consideration of and in exchange for the acquisition of the entire issued share capital of Cyber World Technology Limited. The excess of the fair value of the shares of Cyber World Technology Limited, determined on the basis of the consolidated net assets of Cyber World Technology Limited at that date, over the nominal value of the Company's shares issued in exchange therefore, amounting to HK\$4,998,063, was credited to the Company's contributed surplus account as detailed in note 16 to the financial statements.
- (f) On 10 May 2001, a total of 291,898,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that date by way of capitalisation of the sum of HK\$29,189,800 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new share issue by way of placing and public offer on 1 June 2001.
- (g) On 1 June 2001, 115,000,000 shares of HK\$0.10 each were issued at HK\$0.60 each by way of placing and public offer for a total cash consideration, before expenses, of HK\$69,000,000.

Notes To The Financial Statements

30 June 2001

15. SHARE CAPITAL (continued)

A summary of the above movements in the issued share capital of the Company is as follows:

	Number of shares issued	Paid-up nominal value HK\$
Shares issued and allocated on incorporation	10	1
Shares issued as consideration for the acquisition of the entire share capital of subsidiaries	101,990	10,199
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of public share issue	291,898,000	—
Pro forma share capital at 30 June 2000	292,000,000	10,200
New issue by way of placing and public offer	115,000,000	11,500,000
Pre-IPO issue (note 15(d))	8,000,000	800,000
Capitalisation of share premium account as set out above	—	29,189,800
Share capital as at 30 June 2001	415,000,000	41,500,000

The comparative balance of the share capital as at 30 June 2000 as shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company's subsidiary as at that date.

Share option

Pursuant to the Company's share option scheme adopted on 14 May 2001 (the "Share Option Scheme"), the Company may grant options to executive directors and employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options.

The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the options; (ii) the average of the closing prices of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and the pre-IPO share options scheme, as described below, shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

No option was granted by the Company under the Share Option Scheme since its adoption.

Notes To The Financial Statements

30 June 2001

15. SHARE CAPITAL (continued)

Share option (continued)

Pursuant to a written resolution of the sole shareholder of the Company dated 4 May 2001, the Company also adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"). The terms of the Pre-IPO Share Option Scheme are substantially the same as those under the Share Option Scheme except that:

- (1) the subscription price is HK\$0.60;
- (2) the aggregate number of shares subject to the Pre-IPO Share Option Scheme is 40,000,000;
- (3) the grantees eligible for the options include employees who are not in full-time employment, independent non-executive directors and consultants and advisers to the Group; and
- (4) the option holders will be entitled to exercise (i) one-third of the options after the expiry of two years from 1 June 2001; (ii) one-third of the options after the expiry of three years from 1 June 2001; and (iii) the remaining options after the expiry of four years from 1 June 2001.

During the year, the Company granted 40,000,000 share options pursuant to the Pre-IPO Share Option Scheme.

Notes To The Financial Statements

30 June 2001

16. RESERVES

GROUP

	Share premium HK\$	Contributed surplus HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
Profit retained for the period	—	—	2,813,554	2,813,554
At 30 June 2000 and beginning of year	—	—	2,813,554	2,813,554
Arising on issue of shares for the acquisition of the entire issued share capital of Cyber World Technology Limited (note 15(e))	—	7,906,202	—	7,906,202
Premium arising from issue of new shares to public (note 15(g))	57,500,000	—	—	57,500,000
Transfer to share capital to pay up nil-paid shares allotted to shareholders (note 15(f))	(29,189,800)	—	—	(29,189,800)
Share issue expenses	(12,022,207)	—	—	(12,022,207)
Loss for the year	—	—	(3,984,305)	(3,984,305)
At 30 June 2001	16,287,993	7,906,202	(1,170,751)	23,023,444

The Group's contributed surplus represents the difference between the aggregate of the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

Notes To The Financial Statements

30 June 2001

16. RESERVES (continued)

COMPANY

	Share premium HK\$	Contributed surplus HK\$	Retained profits HK\$	Total HK\$
Arising on issue of shares for the acquisition of the entire issued share capital of Cyber World Technology Limited (note 15(e))	—	4,998,063	—	4,998,063
Premium arising from issue of new shares to public (note 15(g))	57,500,000	—	—	57,500,000
Transfer to share capital to pay up nil-paid shares allotted to shareholders (note 15(f))	(29,189,800)	—	—	(29,189,800)
Share issue expenses	(12,022,207)	—	—	(12,022,207)
Profit for the year	—	—	410,072	410,072
At 30 June 2001	16,287,993	4,998,063	410,072	21,696,128

In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the shares issued by the Company.

Notes To The Financial Statements

30 June 2001

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to net cash inflow/(outflow) from operating activities

	2001	2000
	HK\$	HK\$
Profit/(loss) before tax	(3,984,305)	3,129,554
Depreciation	2,871,140	4,736,427
Interest income	(1,458,511)	—
Gain on disposal of fixed assets	—	(192)
Discretionary bonus applied to pay up the shares under Pre-IPO Issue (note 15(d))	800,000	—
Increase in inventories	(738,864)	(654,015)
Increase in trade receivables	(6,203,814)	(2,757,000)
Decrease/(increase) in prepayments, deposits and other receivables	4,210,740	(7,188,104)
Increase in other payables and accrued liabilities	1,227,310	1,503,545
Increase in trade payables	1,571,266	998,989
Increase/(decrease) in deferred revenue	(2,403,531)	2,403,531
Increase/(decrease) in an amount due to a director	(168,628)	168,628
Net cash inflow/(outflow) from operating activities	(4,277,197)	2,341,363

Notes To The Financial Statements

30 June 2001

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

	Issued capital and share premium HK\$	Due to shareholders HK\$
Net cash inflow from financing activities	—	21,297,861
Balance at 30 June 2000 and 1 July 2000	—	21,297,861
Shares issued and allocated on incorporation	1	—
Net cash inflow from financing activities	56,977,793	208,768
Capitalisation of amount due to Cyber Town (note 14)	—	(7,915,629)
Shares issued as consideration for the acquisition of the entire share capital of subsidiaries	10,199	—
Pre-IPO issue (note 15(d))	800,000	—
At 30 June 2001	57,787,993	13,591,000

(c) Major non-cash transactions

- (i) As further detailed in note 14 to the financial statements, on 2 May 2001, two shares of US\$1 each of Cyber World Technology Limited, a subsidiary of the Company, were issued to Cyber Town to capitalise the amount due to Cyber Town of HK\$7,915,629 as at that date.
- (ii) As further detailed in note 15(d) to the financial statements, on 2 May 2001, Cyber World Technology Limited proposed a discretionary bonus of HK\$800,000 which was applied to pay up the 8,000,000 shares of HK\$0.10 each issued under the Pre-IPO Issue.

18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

- (a) During the year, the Group paid expenses of HK\$414,382 on behalf of Styland Holdings Limited, the ultimate holding company of a shareholder of the Company. The balance was unsecured, interest-free and had been fully settled during the year.

Notes To The Financial Statements

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18. RELATED PARTY TRANSACTIONS (continued)

- (b) On 27 March 2001, Mr. Yick Chong San, a director of the Company, provided a personal guarantee in favour of the landlord of the Group's office in Hong Kong, an independent third party, with effect from 1 November 2000, to secure the performance and observance by Cyber World Technology Limited of terms of the tenancy agreement dated 11 December 2000 and entered between Cyber World Technology Limited and the landlord.

19. COMMITMENTS

	GROUP	
	2001	2000
	HK\$	HK\$
<hr/>		
Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable:		
Within one year	1,651,417	453,687
In the second to fifth years, inclusive	3,042,193	—
	<hr/>	<hr/>
	4,693,610	453,687
	<hr/>	<hr/>

Other than disclosed above, neither the Group nor the Company had any significant capital and operating lease commitments at the balance sheet date.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 September 2001.