优能科技

Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2001

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This annual report, for which the directors of Neolink Cyber Technology (Holding) Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to Neolink Cyber Technology (Holding) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Profile

Directors

Executive Directors
Mr. Cai Zuping *(Chairman)*
Mr. Wang Dingguo *(Vice Chairman)*
Mr. Liu Taikang
Mr. Zhang Zheng

Independent Non-executive Directors
Mr. Wong Ping Wong
Mr. Pan Boxin

Authorized Representative

Mr. Cai Zuping
Mr. Pun Kam Wai Peter

Audit Committee Members

Mr. Wong Ping Wong
Mr. Pan Boxin

Compliance Officer

Mr. Zhang Zheng

Company Secretary

Mr. Pun Kam Wai Peter

Qualified Accountant

Mr. Pun Kam Wai Peter CPA (Aust.), AHKSA

Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th Floor
Allied Kajima Building
138 Gloucester Road
Hong Kong

Principal Banker

The Hongkong and Shanghai Banking
Corporation Limited

Legal Advisors

On Hong Kong Law:
Chiu, Szeto & Cheng Solicitors
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C.M.A. Building
64 Connaught Road Central
Hong Kong

On Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Zephyr House
Mary Street
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Sponsor

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Central
Hong Kong

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George Town
Grand Cayman
British West Indies

Principal Place Of Business

2811, 28th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Share Registrars And Transfer Office

Cayman Islands

Bank of Butterfield International (Cayman) Limited
Butterfield House
Fort Street
PO Box 705 George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong

Abacus Share Registrars Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Chairman's Statement

I am pleased to announce the results of Neolink Cyber Technology (Holding) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2001.

The turnover of the Group was approximately HK$31,893,000 for the year ended 31 December 2001 which is 59% higher than the previous year. Radio trunking systems integration continues to be the most important line of business with the Group and contributed approximately HK$26,768,000 turnover which is about 84% of the total turnover of the Group. The turnover from radio trunking systems integration itself grew by almost 77% as compared with the previous year.

Operating loss for the year ended 31 December 2001 narrowed to HK$2,461,000, a 70% improvement from the previous year. The improvement was driven by substantial business growth, particularly in radio trunking systems integration, together with strengthened expense control.

Loss attributable to shareholders for the year ended 31 December 2001 was approximately HK$16,118,000. The loss was mainly due to the impairment of goodwill amounted to HK$12,015,000 arising from the acquisition of all the assets, business and rights of Shenzhen Hua Dian Computer Technology Company Limited ("Hua Dian") which is engaged in research and development, production and sale of personal digital assistants. Besides, provision for inventories and prepayments in relation to personal digital assistant business amounted HK$1,063,000 has also been made.

The legal issue related to the acquisition of 55% shareholding in Shenzhen Max Com Industrial Development Company Limited ("Shenzhen Max Com") is not yet settled as at the publication of this annual report.

In the year ended 31 December 2001 the most significant activity of the Company is the shareholding change within Infonet Group Co., Ltd. ("Infonet"), the controlling shareholder of the Company. Qing Jiang (Hong Kong) Holdings Limited ("Qing Jiang HK") became the second largest shareholder of Infonet. The beneficial owner of Qing Jiang HK is Hubei Qing Jiang Hydro-electric Development Company Limited ("Hubei Qing Jiang") which is a very successful government-owned enterprise in China. Mr. Wang Dingguo, Chairman of Qing Jiang HK, was appointed as the Vice Chairman of the Company. With the introduction of Qing Jiang HK into Infonet, we expect the business of the Group will achieve further business breakthroughs with the help of Qing Jiang HK's immense business resources in China.

With China's accession to the World Trade Organization ("WTO") and Beijing's Olympic Games in 2008, we are very optimistic with the market development in China. In 2002 we expect to have sustained growth in radio trunking systems integration. We also expect the Group will benefit from the opening of value-added telecom services market in China. We are confident that the Group will drive further business growth and deliver good results in the year ahead.

On behalf of the Board of Directors, I would like to thank our management and employees for their continuing commitment and efforts in 2001. I also wish to express our deepest gratitude to our customers, our business partners and our shareholders for their valuable support.

BUSINESS REVIEW AND OUTLOOK

Although the Group met setback in expansion into new businesses in the year ended 31 December 2001, the two established lines of business, particularly radio trunking systems integration, have achieved stable business growth and contributed significant support to the Group.

Radio Trunking Systems Integration

Turnover from radio trunking systems integration in the year ended 31 December 2001 was HK$26,768,000 which represented almost 77% growth from the previous year. Through collaboration with Shanghai BeTrue Info Tech Co., Ltd. ("Shanghai BeTrue") in the Laos project, the Group succeeded to open overseas market. The sales in the Laos project was approximately HK$6.8 million in 2001. Negotiations on system expansion in 2002 are in progress. Given the specialized nature of the products in this project, the Group expects orders from such system expansion will continue in the coming years.

Besides, the Group is also actively looking into further collaboration opportunities with Shanghai BeTrue in overseas markets. Shanghai BeTrue has well-established sales and distribution network especially in Southeast Asia. Given the complementary nature of the products of Shanghai BeTrue and the Group, we expect good prospect in the future collaboration of the two companies.

The Group also maintained good progress in developing and delivering government use radio trunking products in 2001. There was steady development in the technological innovation requested by the customer and the research results will be used in the orders in 2002. Based on past experience, majority of the products will be delivered in the second half of 2002.

In terms of customer base, the Group has broadened to fields like urban light rail transport, port transport and railway system. The management plans to enlarge the customer base further in 2002.

Provision of Telemedia-related Services

The market environment of telemedia services continues to be very tough. Through the joint effort of Haoyuan Yingte Technology Development Co., Ltd. and the Group in strengthening resources deployment and program development, this business line managed to maintain its previous year's performance in 2001.

With China's accession to the WTO, call centre services are expected to grow. But the scale of the call centre market in China is still uncertain. The Group has been investing resources on a limited scale in the research and development of call centre-related technology and prepares to enter this market once the market development is mature.

Provision of Internet-related Services and Personal Digital Assistants

With the drastic changes in the internet ISP and ICP markets since late 2000, the Group had suspended the investment in internet business. In early 2001 the Group decided to shift its focus to develop business in personal digital assistants ("PDA") and acquired all the assets, business and rights of Hua Dian which is engaged in research and development, production and sale of PDA. Hua Dian had successfully developed its ebook product, an educational PDA with wireless paging transmission capability specially designed for secondary school students in China. Its information transmission relied on paging network and its products would be selling through distribution network of paging service companies. However, the recession of paging services in China, especially in cities, since the second half of 2001 was beyond the expectation of the management of the Group and the market development has adversely affected the development of Hua Dian's PDA project. The Group is now looking into the opportunity of applying the PDA technology acquired from Hua Dian into radio trunking systems.

Legal Issue about Shenzhen Max Com

The acquisition of 55% equity interest in Shenzhen Max Com in early 2001 has encountered legal issue. For details, please refer to an announcement of the Company dated 28 February 2002. The issue is not yet settled as at the publication of this annual report.

The management considers that long-term cooperation with Shanghai Guomai Communications Enterprise Development Company Limited, the other equity holder of Shenzhen Max Com, a company established in the PRC and wholly owned by Unicom Guomai Communications Industrial Development Company Limited (a listed company in Shanghai with major shareholder being China United Telecommunications Corporation), can bring good development opportunity for Shenzhen Max Com. Negotiations are still in progress but the parties involved cannot yet arrive at consensus on the future cooperation arrangement. Should the negotiations fail, the Company may have to commence legal proceedings against relevant parties to recover its losses. The Company will keep the public and the shareholders of the Company informed of any further development in this issue.

Financial Review

Turnover

The turnover of the Group was approximately HK$31,893,000 for the year ended 31 December 2001 which is 59% higher than the HK$19,998,000 turnover in the previous year. Radio trunking systems integration contributed approximately HK$26,768,000 turnover which is about 84% of the total turnover of the Group. The turnover from radio trunking systems integration itself grew by almost 77% as compared with the previous year. Telemedia services recorded HK$4,611,000 turnover which is about 5% reduction as compared with 2000.

In terms of geographical segmentation, about 21% of total turnover generated from products delivered to ultimate customers overseas with the remaining 79% from mainland China.

Operating Expenses

Despite the Group's substantial growth in business, operating expenses for the year ended 31 December 2001 reduced about 3% to HK$22 million. This reflects the efforts of the Group to strengthen expense control since the second half of 2001 which proved to be successful in supporting an enlarged turnover base by more effective cost structure.

Operating loss

Operating loss for the year ended 31 December 2001 narrowed to HK$2,461,000, a 70% improvement from HK$8,280,000 loss in the previous year. The improvement was driven by substantial business growth, particularly in radio trunking systems integration, together with strengthened expense control.

Impairment of Goodwill and provision for inventories and prepayments

In accordance with SSAP 31 "Impairment of Assets" issued by the Hong Kong Society of Accountants in 2001, the directors of the Company decided to write off the goodwill arising from the acquisition of all the assets, business and rights of Hua Dian which is engaged in research and development, production and sale of PDA products. This impairment loss amounted to HK$12 million. Besides, the Group has also made provision for inventories and prepayments in relation to PDA business amounted to HK$1,063,000.

Loss Attributable to Shareholders

Loss attributable to shareholders for the year ended 31 December 2001 was approximately HK$16,118,000 versus HK$7,996,000 loss in 2000. The loss was mainly due to the impairment of goodwill. If the impairment of goodwill were excluded, the loss attributable to shareholders would have been reduced to HK$4,103,000, a 49% improvement versus a year ago.

Liquidity and Financial Resources

The Group financed its operations with internally generated cash flows, balance of proceeds from IPO, secured bank loans and unsecured loan from controlling shareholder of the Company.

As at 31 December 2001, the Group had total assets of HK$53,309,000 (2000: HK$41,726,000), which were financed by current liabilities of HK$17,196,000 (2000: HK$9,182,000), shareholders' equity of HK$35,976,000 (2000: HK$32,544,000) and minority interests of HK$137,000 (2000: Nil). The bank balances and cash of the Group as at 31 December 2001 were HK$5,991,000 as compared to HK$8,142,000 as at 31 December 2000.

Foreign Currency Exposure

Since the Group's sales, purchases and loans were substantially denominated in RMB or HK$, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 18 July 2000 ("the Prospectus") for the year ended 31 December 2001	Actual business progress
Provision of telemedia related technical services	
Research and development	
• Call centre system.	• In progress, emphasis being placed on integration and application of call centre system.
• Connection of telemedia system and call centre system to the Internet.	• R & D on connection with manual assistance completed.
• Call centre system version two.	• Business opportunities for call centre service are growing after China's accession to the WTO. But the scale of the market is still uncertain. R & D and applications on medium-scale call centre system still in progress.
Sales	
• Technical services to new telemedia establishments of Haoyuan Yingte in four cities in the PRC.	• Haoyuan Yingte has taken a more conservative business development approach in response to the latest market changes. No new city has been added to operations.
• Regular technical services and telemedia programmes to existing telemedia establishments of Haoyuan Yingte.	• In progress as planned, including new technical service for mobile short messages.
• Sale of first call centre system.	• R & D on call centre system currently still in progress. Product not yet ready for sale.

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 18 July 2000 ("the Prospectus") for the year ended 31 December 2001	Actual business progress
Radio trunking systems integration	
Research and development	
• Commence development of 800 megahertz integrated global positioning system and data communication vehicle terminal.	• In progress.
• Commence development of second generation specialised government use digital encryption mobile terminal.	• Completed.
• Commence development of digital trunking system.	• In progress with discussions on technical solutions.
• Connection of PDAs to the Internet through specialised radio networks. • Connection of radio trunking systems to the Internet. • Develop Multi-int Internet application system into an integrated information services platform.	Pending due to the volatile development of Internet market.
• General purpose model vehicle integrated global positioning system and data communication terminal.	• Developed successfully and ready for production.
• Second generation specialised government use digital encryption mobile terminal.	• Completed and to be used in products delivered in 2002.
• Specialised transport vehicle use terminal.	• R & D for 2.4G terminal used specially for port transport system completed and products used by customer in Shanghai.
• Digital trunking system.	• R & D commenced in Hangzhou and Nanjing, further market investigation to be done.

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 18 July 2000 ("the Prospectus") for the year ended 31 December 2001	Actual business progress
Radio trunking systems integration (continued)	
Sales	
• ODIN systems to overseas markets.	• Sales of radio trunking systems to Laos government.
• ODIN system expansions in the PRC.	• Sales to customers in Zhejiang, Hunan and Jiangsu, the PRC.
• ODIN systems in the PRC.	• Sales to customers in Beijing, Shanghai and Foshan.
• Specialised government systems.	• Products for 2001 sales contract completed delivered. Including new customer like Qingdao emergency services.
• Specialised railway use systems.	• Sales to Shenyang city light rail system. Cooperation agreement with railway company in Beijing signed and sales expected to be commenced in 2002.
• Specialised highway use systems.	• No sales achieved yet.

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 18 July 2000 ("the Prospectus") for the year ended 31 December 2001	Actual business progress
Provision of Internet solutions and related technical services	
Research and development	
• Continue to improve on the technology and services of Internet login and information content. • Extend Multi-int Internet application system to connect fixed-line telephones to the Internet. • Develop Multi-int Internet application system into an integrated information services platform. • Develop new Internet technology for diversification of user markets.	As mentioned in the 2001 interim report, in response to the latest internet market developments, the Group has suspended development in ICP and kept investment in ISP to a minimal level.
Sales	
• Technical services to new ISP establishments of Haoyuan Sky Internet in ten cities in the PRC. • Internet information content to support the ICP business of Haoyuan Sky Internet. • Multi-int Internet application system.	No sales were achieved due to changes in business strategy as mentioned above.

Executive Directors

Mr. CAI Zuping, aged 44, is the chairman of the Company. He is one of the founders of the Group and is responsible for the overall strategic planning of the Group and the planning of the Group's business development in the PRC. Mr. Cai graduated from an electronic engineering college in Taiyuan, Shanxi, the PRC and since then, has worked in communication related government departments in the PRC for six years. He founded the Group in 1990. He has over 24 years of experience in the communications industry.

Mr. WANG Dingguo, aged 59, is the vice-chairman of the Company. He is also the President of Hubei Qing Jiang Hydro-electric Development Company Limited, General Manager of Hubei Province Qing Jiang Hydro-electric Investment Company and Chairman of Qing Jiang (Hong Kong) Holdings Limited. Mr. Wang graduated from the Industrial Institute of Central China in 1968 with major in Thermal Energy. He is very experienced in national economic management, theories and research of investment management and enterprise management. Mr. Wang is also a representative of the Ninth National People's Congress and the Chairman of the Hubei Province Enterprise Association. He was the Deputy Secretary of the People's Government of Hubei Province, a member of the Economic Restructuring Committee of Hubei Province and the officer-in-charge of the Policy Research Office of Hubei Province. Mr. Wang is a part-time professor of the University of Science & Technology of Central China and the Wuhan University.

Mr. LIU Taikang, aged 58, is an executive director of the Company. He is also a Director and the General Manager of Hubei Qing Jiang Hydro-electric Development Company Limited, the President of Hubei Chang Feng Fibre Company Limited and an executive director of Qing Jiang (Hong Kong) Holdings Limited. Mr. Liu graduated from the Wuhan University of Surveying Technology. He is very experienced in enterprise management. He is a Professorial Senior Engineer. He has extensive research on Global Positioning Systems (GPS). Mr. Liu is a part-time professor of the Wuhan University of Water Resources and Hydro-electricity. He is also an Executive Committee Member of the China Hydro-Electric Engineering Association.

Mr. ZHANG Zheng, aged 40, is an executive director of the Company. He is responsible for the day-to-day management of the Group's businesses. He is also the compliance officer of the Company. Mr. Zhang holds a bachelor degree in engineering from Ceramics College of the PRC and has over 17 years of experience in computer and communications. Mr. Zhang joined the Group in 1992. Prior to joining the Group, Mr. Zhang worked for the Hangzhou Automation Research Institute and subsequently worked in a senior management position for five years in a Sino-foreign equity joint venture computer company in the PRC.

Independent non-executive Directors

Mr. WONG Ping Wong, aged 38, is an independent non-executive director of the Company. He has been engaged in telecommunications management since he graduated form Beijing University of Postal Telecommunications in 1984. He is currently a director of a company engaged in China-Hong Kong telecommunications business.

Mr. PAN Boxin, aged 59, is an independent non-executive director of the Company. He is currently a director who participates in the operations of the Shanghai Diamond Exchange Market which engages in diamond trading and verification.

Senior Management

Mr. PUN Kam Wai, Peter, aged 40, is the financial controller, the company secretary and the qualified accountant of the Company. He holds a master degree in business administration and a bachelor degree in social science from the Chinese University of Hong Kong and a master degree in professional accounting from University of Southern Queensland, Australia. He has over 13 years of experience in the accounting, finance and administration field and is a member of the CPA Australia and an associate member of the Hong Kong Society of Accountants. Mr. Pun joined the Group in June 1999.

Mr. LU Chunming, aged 45, is the general manager of Beijing Neolink Information Technology Company Limited and is responsible for the management of telemedia business of the Group. He graduated from Beijing Teacher's University in the PRC and joined the Group in 1995. Prior to joining the Group, Mr. Lu worked for the Post and Telecommunication Science Research Institute and Authorities Service Bureau of the former MPT. He has over 21 years of experience in the communications industry.

Mr. CHEN Huanming, aged 37, is the general manager of both Hangzhou Neolink Communication Equipment Company Limited and Neolink Electronic Technology (Beijing) Company Limited. Mr. Chen is responsible for the management of radio trunking systems integration business of the Group. He holds a bachelor degree in electronic engineering from Zhejiang University in the PRC and joined the Group in 1992. Mr. Chen has over 15 years of experience in the electronics and communications industries.

Mr. MI Lei, aged 38, is the head of the research centre of Hangzhou Neolink Communication Equipment Company Limited and is responsible for the research and development of new products for the Group. He graduated from Zhejiang University in the PRC with a bachelor degree in electronic engineering. Mr. Mi joined the Group in 1996 and has over 16 years of experience in the electronics and communications industries.

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2001.

Principal Activities

The principal activity of the Company is investment holding. The Group's principal activities consist of radio trunking systems integration and provision of telemedia related services.

Segmental Information

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities and geographical markets is set out in note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2001 and the state of the affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 26 to 28.

The directors do not recommend the payment of a dividend for the year.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 66.

Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2001 are set out in note 14 to the financial statements.

Fixed Assets

Details of the movements in fixed assets of the Group and the Company are set out in note 13 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

Donations

The Group did not make any charitable donation during the year.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2001 amounted to HK$24,327,000 (2000:HK$15,555,000). Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Bank and Other Borrowings

Particulars of the bank and other borrowings of the Group as at 31 December 2001 are set out in note 26 to the financial statements.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, and details of the Company's share option scheme are set out in note 27 to the financial statements.

Major Customers and Suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:–

Purchases

– the largest supplier	22%
– five largest suppliers combined	53%

Sales

– the largest customer	38%
– five largest customers combined	83%

The largest and third largest customers of the Group are Hainan Baotong Communication System Company Limited ("Baotong") and Beijing Haoyuan Yingte Technology Development Company Limited ("Haoyuan Yingte") respectively.

Saved as mentioned above, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its listed shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year.

Directors

The directors who held office during the year were:

Mr. CAI Zuping	
Mr. WANG Dingguo	(appointed on 20 September 2001)
Mr. LIU Taikang	(appointed on 20 September 2001)
Mr. WONG Chit On	(resigned on 3 August 2001)
Mr. WAN Qiu Sheng	(resigned on 1 December 2001)
Mr. ZHANG Zheng	
Mr. WONG Ping Wong*	(appointed on 17 May 2001)
Mr. CHAN Wai Dune*	(resigned on 1 June 2001)
Mr. PAN Boxin*	(appointed on 3 July 2001)
Mr. KONG Li Szu*	(resigned on 15 April 2001)

* *Independent non-executive directors*

One-third of the directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Directors' Service Contracts

Each of Mr. CAI Zuping, Mr. ZHANG Zheng, Mr. WONG Chit On and Mr. WAN Qiu Sheng, the executive directors, has entered into a service contract with the Company on 16 December 1999 for a term of three years commencing on 25 July 2000, and will be continuing thereafter unless terminated by either party by giving three months' prior written notice. Under the service contracts, after each completed year of service, their remuneration may be increased by not more than 15% at the discretion of the directors and they will be each be entitled to a discretionary bonus provided that the total amount of bonus payable to all the directors for such year shall not exceed 6% of the audited consolidated or combined net profit of the Company in respect of that financial year of the Company. During the year, two of the above directors, Mr. WONG Chit On and Mr. WAN Qiu Sheng resigned and their service contracts were terminated on 3 August 2001 and 1 December 2001 respectively.

No service contracts have been made for Mr. WANG Dingguo and Mr. LIU Taikang.

Directors' Service Contracts *(continued)*

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical Details of Directors and Senior Management

Brief biographical details of directors and senior management are set out on pages 13 to 14 of the annual report.

Directors' Interests in Contracts

Saved as disclosed in note 33 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its holding company, its subsidiaries or its fellow subsidiaries was a party and in which any 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.

Directors' Interests in Equity or Debt Securities

As at 31 December 2001, the interests of the directors in the share capital and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:–

Name of director	Corporate interest
Mr. CAI Zuping	412,000,000 shares *(Note)*
Mr. ZHANG Zheng	412,000,000 shares *(Note)*

Note:

Mr. CAI Zuping and Mr. ZHANG Zheng hold their respective deemed interest in the Company through their shareholdings in Infonet Group Co., Ltd. ("Infonet") which holds 71.18% of the total issued share capital of the Company.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

Under the terms of the Company's share option scheme approved by the then sole shareholder on 13 July 2000, the executive directors of the Company may, at their discretion, grant options to themselves and the full-time employees of the Group to subscribe for ordinary shares of HK$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures *(continued)*

On 5 January 2001, 10,000,000 options were granted to Mr. ZHANG Zheng, an executive director of the Company, pursuant to the share option scheme with an exercise price of HK$0.72 per share. The options will be exercisable from 5 January 2004 and will expire on 4 January 2008. No options were waived or exercised up to the date of this report.

Apart from the above,

(a) at no time during the year, the directors and chief executive (including their spouses or children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares in or debentures of the Company and its associated corporations (within the meaning of the SDI Ordinance) during the year and up to the date of this report;

(b) at no time during the year was the Company, its holding company, its subsidiaries or its fellows subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

At 31 December 2001, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance, showed that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	**Number of issued shares**
Infonet *(Note)*	412,000,000

Note :

Infonet is a company incorporated in the British Virgin Islands, 56.28% of the issued capital of which is beneficially owned by the executive directors and senior management staff of the Group as at 31 December 2001 are analysed as follows:

Executive directors:

– 45.93% by CAI Zuping; and

– 5.86% by ZHANG Zheng.

Substantial Shareholders *(continued)*

Senior management staff:

- 2.25% by LU Chunming;
- 1.90% by CHEN Huanming;
- 0.17% by MI Lei; and
- 0.17% by PUN Kam Wai, Peter.

Note :

The balance of 26.00%, 13.04%, 2.60% and 2.08% are owned respectively by:

- Qing Jiang HK, a company incorporated in Hong Kong which is beneficially owned by Hubei Qing Jiang;
- HE Yuefeng;
- Smooth Gain Profits Limited, a company incorporated in the British Virgin Islands which is owned by WAN Qiu Sheng, a former director and his wife each holds a 50% shareholding; and
- Distinct Developments Limited, a company incorporated in the British Virgin Islands which is owned by two PRC individuals each holds a 50% shareholding.

Infonet, CAI Zuping and Qing Jiang HK are substantial shareholders of the Company for the purpose of the GEM Listing Rules.

Management Contracts

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

Pension Scheme Arrangement

Details of the pension scheme arrangements are set out in note 32 to the financial statements.

Board Practices and Procedures

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM of the Stock Exchange.

Connected Transactions

Significant related party transactions entered by the Group during the year, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market on the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules :

Connected Transactions *(continued)*

(1) On 11 November 1999, a subsidiary of the Company entered into a technical services agreement with Haoyuan Yingte regarding the provision of telemedia related technical services by the Group to Haoyuan Yingte. Haoyuan Yingte is 60% and 37% owned by Shenzhen You Neng Electronic Technology Company Limited ("Shenzhen You Neng") and Hainan Zhaotai Electronic Company Limited ("Zhaotai") respectively. Both of Shenzhen You Neng and Zhaotai are 50% held by a sister of Mr. CAI Zuping, a director of the Company and 50% held by Shenzhen Jin Jiang Dao Property Development Company Limited ("Jin Jiang Dao"). Jin Jiang Dao is beneficially owned by Hubei Qing Jiang. The total service income earned by the Group amounted to HK$4,611,000 for the year ended 31 December 2001.

(2) On 11 November 1999, a subsidiary of the Company entered into a technical services agreement with Beijing Haoyuan Sky Internet Company Limited ("Haoyuan Sky Internet") regarding the provision of Internet solutions and related technical services by the Group to Haoyuan Sky Internet. Haoyuan Sky Internet is 50% held by a sister of Mr. CAI Zuping, a director of the Company and 50% held by Jin Jiang Dao. No service income was earned by the Group during the year.

(3) Certain subsidiaries of the Company have sold certain specialised government use radio trunking systems and equipment, and rendered related technical services to Baotong for a total consideration of HK$12,231,000 during the year. Baotong is a company established in the PRC and is 55 % held by Zhaotai.

Audit Committee

In compliance with Rule 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties.

The principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises two independent non-executive directors, namely Mr. WONG Ping Wong and Mr. PAN Boxin. The audit committee met once during the current financial year.

Pre-emptive Rights

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

Competing Interests

The directors are not aware of, as at 31 December 2001, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Post Balance Sheet Events

Details of the post balance sheet events which have been taken place subsequent to the balance sheet date are set out in note 34 to the financial statements.

Sponsor's Interest

Pursuant to the agreement dated 17 July 2000 and entered into between the Company and DBS Asia Capital Limited ("DBS"), DBS receive a fee for acting as the Company's retained sponsor for the period of two years commencing 25 July 2000. Subsequently both parties mutually agreed that the appointment of DBS as the sponsor to the Company terminated with effect from 16 January 2002. As at 16 January 2002, none of DBS, its directors, employees and their associates had any interest in the securities 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.

South China Capital Limited ("SCCL") was appointed as the sponsor to the Company for the period from 16 January 2002 to 31 December 2002. As at 28 February 2002, none of SCCL, its directors, employees and their associates had any interest in the securities 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.

Use of Proceeds

Net proceeds from listing amounted to approximately HK$31 million, of which:

- Approximately HK$7.4 million was used for the research and development and corporate development in relation to the Group's business of radio trunking systems integration;

- Approximately HK$0.3 million was used for the research and development and corporate development in relation to the Group's business of telemedia related technical services;

- Approximately HK$3.4 million was used for the research and development of the integrated information services network based on the Internet;

Use of Proceeds *(continued)*

– Approximately HK$10 million was used acquisitions of 55% equity interest in Shenzhen Max Com and all the assets (both tangible and intangible), business and rights of Hua Dian; and

– Approximately HK$9.9 million was used as additional working capital.

Net proceeds used in telemedia business were quite little mainly due to suspension of the establishment of customer service centres in response to the change in the telemedia market.

Net proceeds used in acquisitions were higher than the amount set aside for acquisition as planned in the prospectus.

Net proceeds used for additional working capital were higher, mainly for financing growth in business volume and loss incurred since the listing of the Company.

Auditors

With effective from 9 February 2002, Messrs. PricewaterhouseCoopers resigned as the Company's auditors. At the same day, RSM Nelson Wheeler were appointed as auditors of the Company at the extraordinary general meeting. Accordingly, a resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board

Cai Zuping
Chairman

Hong Kong, 25 March 2002

Nelson Wheeler
Certified Public Accountants
羅 申 美 會 計 師 行

TO THE SHAREHOLDERS OF
NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The 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 financial 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, except that the scope of our work was limited as explained below.

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 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 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. As detailed in note 15 to the financial statements, the Group paid HK$14,950,179 to a third party vendor for a 55% equity interest of Shenzhen Max Com Industrial Development Company Limited. Subsequent to the completion of the sales and purchase agreement, the Group was refused by Shenzhen Bureau for Industry and Commerce on the alteration of the shareholding. Negotiation among the vendor, the other equity holder and the Group is still underway on the final settlement of the equity interest. There were no other satisfactory audit procedures that we could adopt to determine whether any provision for diminution in value of the investment should be made in the financial statements.

Basis of Opinion *(continued)*

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.

Qualified Opinion Arising from Limitation of Audit Scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence to determine the provision for any diminution in value of the non-trading securities, in our opinion, the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2001 and of its results and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect of the limitation on our work relating to the provision for any diminution in value of the non-trading securities, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25 March 2002

Consolidated Income Statement

For the year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Turnover	4	**31,893**	19,998
Cost of sales and services		**(12,806)**	(6,107)
Gross profit		**19,087**	13,891
Other revenues	4	**426**	447
Distribution costs		**(2,089)**	(2,920)
Administrative expenses		**(20,321)**	(18,112)
Other operating expenses		**436**	(1,586)
Loss from operations	6	**(2,461)**	(8,280)
Finance costs	7	**(216)**	(101)
Provision for inventories and prepayments in relation to personal digital assistant business		**(1,063)**	–
Impairment of goodwill	16	**(12,015)**	–
Loss before taxation		**(15,755)**	(8,381)
Taxation	8	**(226)**	(6)
Loss after taxation		**(15,981)**	(8,387)
Minority interests		**(137)**	391
Loss attributable to shareholders	11	**(16,118)**	(7,996)
		HK cents	HK cents
Basic loss per share	11	**(2.80)**	(1.56)

The notes on pages 32 to 65 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
ASSETS			
Non-current assets			
Fixed assets	*13(a)*	**4,721**	4,854
Deposit for investment		**–**	9,000
Non-trading securities	*15*	**14,950**	–
Goodwill	*16*	**–**	–
		19,671	13,854
Current assets			
Inventories	*17*	**3,574**	2,121
Trade receivables	*18*	**10,858**	2,690
Prepayments, deposits and other receivables		**3,600**	4,505
Amount due from ultimate holding company	*19*	**–**	457
Amounts due from related companies	*20*	**9,615**	9,619
Loan to a director	*21*	**–**	300
Tax recoverable	*8(d)*	**–**	38
Bank balances and cash	*22*	**5,991**	8,142
		33,638	27,872
Less: **Current liabilities**			
Trade payables	*23*	**3,666**	1,401
Accruals and other payables		**6,632**	5,912
Amount due to ultimate holding company	*24*	**1,665**	–
Amounts due to related companies	*25*	**2,119**	–
Taxation payable		**217**	–
Secured bank loans	*26*	**2,897**	1,869
		17,196	9,182
Net current assets		**16,442**	18,690
Total assets less current liabilities		**36,113**	32,544
Non-current liabilities			
Minority interests		**137**	–
NET ASSETS		**35,976**	32,544

The notes on pages 32 to 65 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2001

	Note	**2001**	2000
		HK$'000	*HK$'000*
CAPITAL AND RESERVES			
Share capital	*27*	**57,880**	56,000
Reserves	*28(a)*	**(21,904)**	(23,456)
SHAREHOLDERS' FUNDS		**35,976**	32,544

Approved by the Board of Directors on 25 March 2002

CAI Zuping
Director

ZHANG Zheng
Director

The notes on pages 32 to 65 form an integral part of these financial statements.

Balance Sheet

At 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
ASSETS			
Non-current assets			
Fixed assets	*13(b)*	**310**	607
Deposit for investment		**–**	9,000
Investments in subsidiaries	*14*	**83,190**	53,412
		83,500	63,019
Current assets			
Deposits and other receivables		**991**	2,553
Amount due from ultimate holding company	*19*	**–**	70
Loan to a director	*21*	**–**	300
Bank balances		**8**	6,250
		999	9,173
Less: **Current liabilities**			
Amount due to ultimate holding company	*24*	**1,650**	–
Accruals and other payables		**642**	637
		2,292	637
Net current (liabilities)/assets		**(1,293)**	8,536
NET ASSETS		**82,207**	71,555
CAPITAL AND RESERVES			
Share capital	*27*	**57,880**	56,000
Reserves	*28(b)*	**24,327**	15,555
SHAREHOLDERS' FUNDS		**82,207**	71,555

Approved by the Board of Directors on 25 March 2002

CAI Zuping
Director

ZHANG Zheng
Director

The notes on pages 32 to 65 form an integral part of these financial statements.

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 December 2001

	Note	**2001** **HK$'000**	2000 *HK$'000*
Revaluation surplus of leasehold land and buildings	*28(a)*	**–**	400
Exchange differences arising on translation of subsidiaries		**(66)**	(424)
Net losses not recognised in the income statement		**(66)**	(24)
Loss for the year attributable to shareholders		**(16,118)**	(7,996)
Total recognised losses		**(16,184)**	(8,020)

The notes on pages 32 to 65 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	29(a)	**(1,599)**	(14,931)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest income		**194**	311
Interest on bank loans		**(216)**	(101)
NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(22)**	210
TAXATION			
Income tax refunded/(paid)		**29**	(68)
INVESTING ACTIVITIES			
Purchase of fixed assets		**(1,014)**	(2,986)
Sales proceeds of fixed assets		**270**	–
Deposit paid for investment	29(d)	**–**	(9,000)
Purchase of non-trading securities	29(c)(i)	**(934)**	–
Excess payment of acquisition refunded	29(d)	**157**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(1,521)**	(11,986)
NET CASH OUTFLOW BEFORE FINANCING		**(3,113)**	(26,775)
FINANCING	29(b)		
Bank loans raised		**2,897**	1,869
Bank loans repaid		**(1,869)**	(1,402)
Net proceeds from issue of shares by the Company		**–**	30,193
Net proceeds from issue of shares by certain subsidiaries to the then shareholders before the group reorganisation		**–**	775
NET CASH INFLOW FROM FINANCING		**1,028**	31,435
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,085)**	4,660
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(66)**	(424)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**8,142**	3,906
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**5,991**	8,142
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**5,991**	8,142

The notes on pages 32 to 65 form an integral part of these financial statements.

1. General

The Company was incorporated in the Cayman Islands on 13 October 1999 as an exempted Company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange since 25 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. Adoption of New Statements of Accounting Practices

In the current year, the Group has adopted a number of new Statements of Standard Accounting Practice (SSAPs) – SSAP 14 "Leases", SSAP 26 "Segment reporting" and SSAP 31 "Impairment of Assets" issued by the Hong Kong Society of Accountants for the first time.

Adoption of these standards has led to a number of change in the Group's accounting policies. The revised accounting policies are set out in note 3 to the financial statements. In addition, the new standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets, (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

3. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

3. Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(ii) On 13 July 2000, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results of the Group for the year ended 31 December 1998 include the results of the Company and its subsidiaries with effect from 1 January 1998 or since their respective dates of incorporation, where this is a shorter period, as if the current group structure had been in existence throughout the year ended 31 December 1998.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

A subsidiary is a company in which the Company directly or indirectly holds more than 50% of the equity, or controls more than half of its voting power or controls the composition of its board of directors.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the Company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.

3. Principal Accounting Policies *(continued)*

(c) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions, goodwill is generally amortised over 5-10 years.

On disposal of an investment in subsidiary, the relevant portion of attributable goodwill, net of accumulation and any impairment losses is included in the determination of the profit or loss on disposal.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Leasehold land and buildings are stated at valuation, being the fair value at the date of revaluation, less subsequent accumulated amortisation or depreciation. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Amortisation of leasehold land is calculated to write off its cost over the unexpired periods of the leases on a straight-line basis. The principal annual rate used for this purpose is 1% per annum.

Depreciation of leasehold buildings is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is the shorter. The principal annual rate used for this purpose is 5% per annum.

3. Principal Accounting Policies *(continued)*

(d) Fixed assets *(continued)*

Leasehold improvements are depreciated over the estimated useful life or lease period, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:–

Leasehold improvements	33% to 50%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer equipment	33%
Motor vehicles	33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserves balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Change in fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairments are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

3. Principal Accounting Policies *(continued)*

(f) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identified and a market exists for the product such that it is probable for it will be profitable. Such development costs are recognised as assets and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. During the year, all research and development costs are expensed in the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash includes cash in hand and deposits repayable on demand with any bank or other financial institution. 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 advance.

(i) Trade receivable

Provision is made against trade receivable to the extent which they are considered to be doubtful. Trade receivable in the balance sheet are stated net of such provision.

(j) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Revenue from the provision of technical services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3. Principal Accounting Policies *(continued)*

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(l) Impairment of assets

At each balance sheet date, tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from sale in an arm's length transaction; value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if that is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the income statement.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that take a substantial period of time to develop for their intended uses or sale are capitalised as part of the carrying value of that assets. All other borrowing costs are charged to the income statement in the period in which they are incurred.

During the year, all borrowing costs are expensed as incurred.

(n) Foreign currency transaction

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The financial statements of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

3. Principal Accounting Policies *(continued)*

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable.

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(p) Retirement benefit costs

The Group's contributions to the retirement schemes are expensed as incurred.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interest.

3. Principal Accounting Policies *(continued)*

(r) Related parties

Two 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 individual or corporate entities.

(s) Pre-operating expenses

Pre-operating expenses are written off to the income statement when incurred.

4. Turnover and Revenues

The Group is principally engaged in radio trunking systems integration and provision of telemedia related technical services. Revenues recognised are as follows:–

	Group	
	2001	2000
	HK$'000	*HK$'000*
Turnover		
Technical service income		
Telemedia services	**4,611**	4,872
Sales of goods		
Radio trunking systems	**26,768**	15,126
Other		
Sales of personnel digital assistant products	**222**	–
Consulting service income	**292**	–
	514	–
	31,893	19,998
Other revenues		
Interest income	**194**	311
Others	**232**	136
	426	447
Total revenues	**32,319**	20,445

5. Segmental Information

The Group carries out its activities mainly in the People's Republic of China (the "PRC"). For management purposes, the Group is currently organised into two divisions – radio trunking systems and telemedia services. Others represent sales of personal digital assistant products and consulting service income. These divisions are the basis on which the Group reports its primary segment information. An analysis of the Group's revenue and result for the year and segmental assets by principal activity is as follows:–

For the year ended 31 December 2001

	Group			
	Radio trunking systems *HK$'000*	**Telemedia services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
TURNOVER				
Revenue	26,768	4,611	514	31,893
RESULT				
Segment result	10,428	828	(813)	10,443
Other revenue				426
Unallocated corporate expenses				(13,330)
Loss from operations				(2,461)
Finance costs				(216)
Provision for inventories and prepayments in relation to personal digital assistant business				(1,063)
Impairment of goodwill				(12,015)
Loss before taxation				(15,755)
Taxation				(226)
Loss after taxation				(15,981)
ASSETS				
Segmental assets	27,790	3,151	631	31,572
Unallocated corporate assets				21,737
Consolidated total assets				53,309

5. Segmental Information *(continued)*

	Group			
	Radio trunking systems *HK$'000*	Telemedia services *HK$'000*	Others *HK$'000*	Total *HK$'000*
LIABILITIES				
Segmental liabilities	9,772	343	–	10,115
Unallocated corporate liabilities				7,081
Consolidated total liabilities				17,196
OTHER INFORMATION				
Capital additions	293	721	799	1,813
Depreciation and amortisation	1,045	163	1,067	2,275
Provision for bad and doubtful debts	171	–	–	171

5. Segmental Information *(continued)*

For the year ended 31 December 2000

	Group			
	Radio trunking systems	**Telemedia services**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
Revenue	15,126	4,872	–	19,998
RESULT				
Segment result	1,707	3,572	–	5,279
Other revenue				447
Unallocated corporate expenses				(14,006)
Loss from operations				(8,280)
Finance costs				(101)
Loss before taxation				(8,381)
Taxation				(6)
Loss after taxation				(8,387)
ASSETS				
Segmental assets	16,898	3,868	–	20,766
Unallocated corporate assets				20,960
Consolidated total assets				41,726
LIABILITIES				
Segmental liabilities	7,304	407	–	7,711
Unallocated corporate liabilities				1,471
Consolidated total liabilities				9,182
OTHER INFORMATION				
Capital additions	1,165	436	1,385	2,986
Depreciation and amortisation	715	61	432	1,208
Provision for bad and doubtful debts	1,586	–	–	1,586

6. Loss From Operations

Loss from operations is stated after crediting and charging the followings:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**99**	–
Recovery of bad debts	**612**	–
Charging		
Auditors' remuneration	**480**	680
Cost of goods sold	**10,739**	5,473
Depreciation of fixed assets	**1,775**	1,208
Loss on disposal of fixed assets	**–**	19
Operating lease rental in respect of:		
– land and buildings	**2,944**	2,303
– motor vehicles	**690**	57
Net exchange loss	**–**	51
Amortisation of goodwill	**500**	–
Provision for doubtful debts	**171**	1,586
Provision for slow-moving inventories, included in cost of inventories sold above	**517**	374
Research and development costs	**3,197**	5,400
Staff costs, including directors' emoluments	**9,906**	11,006

7. Finance Costs

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans	**216**	101

8. Taxation

The amount of taxation in the consolidated income statement represents:–

	Group	
	2001	2000
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current year *(Note (a))*	**–**	–
– under provision in previous years	**4**	–
	4	–
Overseas taxation		
– current year *(Note (b))*	**217**	6
– under provision in previous years	**5**	–
	222	6
	226	6

Note:

(a) No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year.

(b) Overseas taxation represented tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

(c) No provision for deferred taxation has been made in the financial statements as the effect of timing differences is not material to the Group.

(d) The tax recoverable in the consolidated balance sheet represents the excess of provisional profits tax paid over the provision required for overseas taxation.

9. Loss Attributable to Shareholders

The loss attributable to shareholders includes a loss of HK$8,964,000 (2000: HK$5,938,000) which has been dealt with in the financial statements of the Company.

10. Dividends

No dividends have been paid or declared by the Company during the year (2000: Nil).

11. Loss Per Share

The calculation of basic loss per share is based on:

Loss	2001 HK$'000	2000 HK$'000
Net loss attributable to shareholders used in the calculation of basic loss per share	**16,118**	7,996

Number of shares	2001	2000
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	**575,318,356**	512,721,311

There is no dilution arising from the outstanding share options granted by the Company. Accordingly no diluted loss per share for the year is presented. There were no potential dilutive shares during the year ended 31 December 2001.

12. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The aggregate amount of emoluments paid and payable to the directors of the Company during the year are as follows:

	Group	
	2001 *HK$'000*	2000 *HK$'000*
Fees	**65**	240
Other emoluments		
– Basic salaries and allowances	**1,355**	1,560
– Mandatory provident fund contributions	**38**	4
	1,393	1,564
	1,458	1,804

Two independent non-executive directors resigned during the year and received directors' fee of HK$45,000 (2000: HK$120,000) and HK$20,000 (2000: HK$120,000) respectively, two independent non-executive directors appointed during the year and received no emoluments for the year ended 31 December 2001.

12. Directors' and Senior Management's Emoluments *(continued)*

(a) Directors' emoluments *(continued)*

The number of directors whose remuneration fell within the following band is as follows:–

	2001	2000
Nil to HK$1,000,000	**4**	4

Four directors received individual emoluments of approximately HK$421,000, HK$421,000, HK$361,000 and HK$361,000 respectively for the year ended 31 December 2000.

Two directors received individual emoluments of approximately HK$432,000 and HK$372,000 respectively, two directors resigned during the year and received HK$341,000 and HK$248,000 respectively, two directors appointed during the year received no emoluments for the year ended 31 December 2001.

During the years ended 31 December 2000 and 2001, no emoluments have been paid by the Group to the directors as an inducement to join the Group.

In addition to the directors' emoluments disclosed above, 10,000,000 options granted to an executive director in 2001 under the share option scheme as stated in note 27 to the financial statements.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2000 and 2001.

12. Directors' and Senior Management's Emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2000: three) directors whose emolument are reflected in the analysis presented above. The emoluments paid to the remaining two (2000: two) individuals during the year are as follows:

	2001	2000
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**943**	919
Mandatory provident fund contributions	**22**	2
	965	921

The number of highest paid individuals whose remuneration fell within the following band is as follows:–

	2001	2000
Nil to HK$1,000,000	**2**	2

During the years ended 31 December 2000 and 2001, no emoluments have been paid by the Group to the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

13. Fixed Assets

(a) Group

	Land and buildings under long leases outside Hong Kong	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2001	1,730	1,198	813	2,441	1,867	306	8,355
Additions	–	41	85	1,196	271	220	1,813
Disposals	(141)	–	–	(58)	(53)	–	(252)
At 31 December 2001	**1,589**	**1,239**	**898**	**3,579**	**2,085**	**526**	**9,916**
Accumulated depreciation							
At 1 January 2001	13	664	721	972	825	306	3,501
Charge for the year	93	510	99	482	536	55	1,775
Disposals	(24)	–	–	(23)	(34)	–	(81)
At 31 December 2001	**82**	**1,174**	**820**	**1,431**	**1,327**	**361**	**5,195**
Net book value							
At 31 December 2001	**1,507**	**65**	**78**	**2,148**	**758**	**165**	**4,721**
At 31 December 2000	1,717	534	92	1,469	1,042	–	4,854

The analysis of the cost or valuation of the above assets at 31 December 2001 is as follows:

	Land and buildings under long leases outside Hong Kong	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	1,239	898	3,579	2,085	526	8,327
At valuation	1,589	–	–	–	–	–	1,589
	1,589	1,239	898	3,579	2,085	526	9,916

13. Fixed Assets *(continued)*

(b) Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2001	179	196	282	657
Additions	–	4	–	4
Disposals	–	(22)	–	(22)
At 31 December 2001	**179**	**178**	**282**	**639**
Accumulated depreciation				
At 1 January 2001	27	7	16	50
Charge for the year	152	40	93	285
Disposals	–	(6)	–	(6)
At 31 December 2001	**179**	**41**	**109**	**329**
Net book value				
At 31 December 2001	**–**	**137**	**173**	**310**
At 31 December 2000	152	189	266	607

(c) The Group's land and buildings under long leases outside Hong Kong was revalued at 31 May 2000 on the basis of open market value in existing use by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers. The surplus arising on revaluation has been credited to the revaluation reserve account (note 28). The revaluation of the property does not constitute a timing difference for tax purposes.

(d) The carrying amount of the land and buildings under long leases outside Hong Kong would have been approximately HK$1,169,000 (2000: HK$1,330,000) had it been stated at cost less accumulated depreciation.

(e) At 31 December 2001 the net book value of land and buildings under long leases outside Hong Kong of the Group of approximately HK$1,507,000 (2000: HK$1,717,000) was pledged to a bank for facilities granted (note 26).

14. Investments in Subsidiaries

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost	**48,600**	47,600
Loan to a subsidiary *(Note (b))*	**28,616**	–
Amounts due from subsidiaries *(Note (c))*	**7,912**	6,381
Amounts due to subsidiaries *(Note (c))*	**(1,938)**	(569)
	34,590	5,812
	83,190	53,412

Note:

(a) Details of the subsidiaries at 31 December 2001 are as follows:

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities
Shares held directly:–				
Neolink Communications Technology (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
Neolink Information Technology (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
Neolink Sky Internet (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
Neolink Wireless Technology Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive
China Gocom (Holdings) Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive

14. Investments in Subsidiaries *(continued)*

(a) Details of the subsidiaries at 31 December 2001 are as follows: *(continued)*

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities
Shares held indirectly:–				
Neolink Communications Technology Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding and marketing of radio trunking systems
China Gocom Information Limited (formerly known as Neolink Information Technology Limited)	Hong Kong	Ordinary HK$10,000	100%	Investment holding
China Gocom Internet Limited (formerly known as Neolink Sky Internet Limited)	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Beijing Neolink Information Technology Company Limited	The PRC	US$300,000	100%	Trading of products relating to telemedia system and provision of relevant and related technical services
Beijing Neolink Sky Internet Technology Company Limited	The PRC	US$300,000	100%	Provision of internet solutions and relevant and related technical services

14. Investments in Subsidiaries *(continued)*

(a) Details of the subsidiaries at 31 December 2001 are as follows: *(continued)*

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities
Hangzhou Neolink Communication Equipment Company Limited	The PRC	US$290,000	80%	Design, production and sales of radio trunking systems
Neolink Electronic Technology (Beijing) Company Limited	The PRC	US$200,000	100%	Marketing and software development of radio trunking systems
Neolink Hua Dian Electronic Technology (Shenzhen) Company Limited (formerly known as Neolink Electronic Technology (Shenzhen) Company Limited)	The PRC	US$300,000	100%	Engineering and sales of radio trunking systems related hardware and software

(b) Loan to a subsidiary is unsecured, interest-free and will not be repayable in the next twelve months.

(c) Amounts due from/(to) subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

15. Non-trading Securities

	2001 HK$'000	2000 HK$'000
Equity security, at cost		
Unlisted investment	**14,950**	–

Details of investment at 31 December 2001 are as follows:

Company	Place of Incorporation	Interest	Percentage holding 2001	Percentage holding 2000	Nature of business
Shenzhen Max Com Industrial Development Company Limited ("Shenzhen Max Com")	The PRC	Equity	**55%**	–	Provision of telecom base station equipment

During the year, Neolink Hua Dian Electronic Technology (Shenzhen) Company Limited ("Shenzhen Neolink") signed a sale and purchase agreement to acquire equity interest in Shenzhen Max Com. The aggregate consideration for the acquisition of the equity interest in the amount of approximately HK$14,950,000 was paid. The scope of business stated in the business licence of Shenzhen Max Com shows that Shenzhen Max Com can operate the business of the production and sales of wireless transmitter facilities which includes the production and sales of paging transmitter equipment. Pursuant to the "Guide Catalogue of Industries for Foreign Investment" promulgated by the State Council of the PRC, paging transmitter facilities is a restricted item and as such the equity capital invested by foreign investors must not exceed 25% of the total equity capital. As Shenzhen Neolink was to acquire 55% equity interest in Shenzhen Max Com, the Shenzhen Bureau for Industry and Commerce ("SBIC") refused to accept Shenzhen Max Com's application for the alteration of equity holder. The Company tried to negotiate with the vendor immediately in order to remedy the situation.

In December 2001, the vendor and the other equity holder of Shenzhen Max Com agreed to allow the other equity holder to enlarge its investment capital by way of an unilateral capital enlargement from RMB4.5 million to RMB5.7245 million. The registration formalities in respect of the above change had already been completed in the SBIC in December 2001.

15. Non-trading Securities *(continued)*

The Company reported the case to SBIC and commenced litigation against the vendor by making an application to the Shenzhen Arbitration Centre on 11 December 2001. The arbitration culminated with an out-of-court settlement between both parties. An agreement dated 18 December 2001 was signed by both parties in which the vendor confirmed that the transaction with the other equity holder of Shenzhen Max Com in respect of alteration of the equity interest was invalid.

Further details have been disclosed in an announcement issued by the Company on 28 February 2002.

The investment in Shenzhen Max Com is not classified as a subsidiary because the Group cannot control its voting power or control the composition of its board of director. As a result, its net assets have been excluded from consolidation.

In spite of the above events, the directors envisage a resolution can be achieved in the foreseeable future and are of the opinion that there is no diminution in value of this investment.

16. Goodwill

	Group	
	2001	2000
	HK$'000	*HK$'000*
Addition during the year	**12,515**	–
Amortisation for the year	**(500)**	–
Impairment loss	**(12,015)**	–
Net book value as at 31 December	**–**	–

Goodwill was related to the acquisition of all the assets (both tangible and intangible), business and rights of Hua Dian, a company established in the PRC and is engaged in research and development, production and sale of personal digital assistant products.

Owing to deterioration of the personal digital assistant business in the PRC, in the view of the directors, full impairment should be made on the goodwill arose from the acquisition of Hua Dian.

17. Inventories

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**3,277**	1,176
Work in progress	**837**	362
Finished goods	**1,207**	918
Less: Provision	**(1,747)**	(335)
	3,574	2,121

18. Trade Receivables

The Group has a policy of allowing its trade customers with credit period normally ranging from 45 days to 60 days or according to the terms of the sales contracts. The ageing analysis of trade receivables is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables				
0 to 30 days	**878**	1,046	**–**	–
31 to 60 days	**794**	50	**–**	–
61 to 90 days	**206**	267	**–**	–
91 to 120 days	**947**	112	**–**	–
Over 120 days	**8,033**	1,215	**–**	–
	10,858	2,690	**–**	–

19. Amount Due from Ultimate Holding Company

Name	Terms	Maximum amount outstanding during the year	Amount outstanding at 31 December 2000	Amount outstanding at 31 December 2001
		HK$'000	*HK$'000*	***HK$'000***
Group				
Infonet	Unsecured, interest-free and with no fixed terms of repayment	457	457	–
Company				
Infonet	Unsecured, interest-free and with no fixed terms of repayment	70	70	–

20. Amounts Due from Related Companies – Group

The amounts due from related companies represent trade receivables by Haoyuan Yingte and Baotong. The amounts are unsecured, interest-free and with no fixed terms of repayment, except for the amount due from Haoyuan Yingte which is subject to a credit period of 45 days after the end of each quarter.

21. Loan to a Director – Group and Company

Name	Terms	Maximum amount outstanding during the year	Amount outstanding at 31 December 2000	Amount outstanding at 31 December 2001
		HK$'000	*HK$'000*	***HK$'000***
Mr. WAN Qiu Sheng	Unsecured, interest bearing at prime rate plus 2% per annum and repayable on 15 February 2001	300	300	**–**

22. Bank Balances and Cash – Group

Included in the bank balances and cash of the Group are deposits placed with banks in the PRC of approximately HK$3,567,000 (2000: HK$1,483,000).

23. Trade Payables

The ageing analysis of trade payables is as follows:–

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables				
0 to 30 days	**1,727**	856	**–**	–
31 to 60 days	**412**	116	**–**	–
61 to 90 days	**65**	11	**–**	–
91 to 120 days	**459**	3	**–**	–
Over 120 days	**1,003**	415	**–**	–
	3,666	1,401	**–**	–

All the trade payables are expected to be settled within one year.

24. Amount Due to Ultimate Holding Company – Group and Company

The amount due to ultimate holding company is unsecured, interest-free and with no fixed terms of repayment.

25. Amounts Due to Related Companies – Group

The amounts due to related companies represent temporary cash advance to the Group from Shenzhen Hubei Building Limited – Qing Jiang Hotel ("Qing Jiang Hotel") which is beneficially owned by Hubei Qing Jiang and rental payable to Edison Radio Limited ("Edison"). The amounts are unsecured, interest-free and with no fixed terms of repayment, except for the amount due to Qing Jiang Hotel which is interest bearing at the prevailing market rates and repayable on 15 January 2002 . The amount due to Qing Jiang Hotel was fully settled on 18 January 2002. Please refer to note 33 to the financial statements for the details of the above related companies.

26. Secured Bank Loans

	Group	
	2001	2000
	HK$'000	*HK$'000*
Wholly repayable within one year	**2,897**	1,869

The bank loans are interest bearing at prevailing market rates and secured by a legal charge on all the land and buildings under long leases outside Hong Kong with net book value of approximately HK$1,507,000 (2000: HK$1,717,000) and secured by the Group's US Dollars deposit of approximately HK$1,560,000 (2000: Nil) .

27. Share Capital

	2001		2000	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		HK$		*HK$*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000
Issued and fully paid:				
At 1 January	**560,000,000**	**56,000,000**	1	1
Shares issued upon Reorganisation	**–**	**–**	475,999,999	47,599,999
Shares issued during the year *(Note a)*	**18,800,000**	**1,880,000**	–	–
Shares issued pursuant to the initial public offering of the Company	**–**	**–**	84,000,000	8,400,000
At 31 December	**578,800,000**	**57,880,000**	560,000,000	56,000,000

27. Share Capital *(continued)*

Note:

(a) During the year, 14,800,000 new ordinary shares of HK$0.10 each, at a premium of HK$0.847 per share and 4,000,000 new ordinary shares of HK$0.10 each, at a premium of HK$1.30 per share were issued to two independent third parties. The net proceeds of approximately HK$19,616,000 were used to provide additional working capital of the Group. These newly issued shares rank pari passu with other shares in issue in all aspects. Further details have been disclosed in announcements issued by the Company on 30 January 2001 and 20 February 2001 respectively.

(b) Pursuant to the share option scheme (the "Share Option Scheme") of the Company adopted on 13 July 2000, the executive directors may, at their discretion, grant options to the directors and the full-time employees of the Group entitling them to subscribe for shares of the Company at an exercise price of HK$0.72 each.

On 5 January 2001, share options were granted to an executive director and certain employees of the Group. Details of the share options granted pursuant to the Share Option Scheme as follows:

Date of grant	Exercise price *HK$*	Exercisable period	No. of options
Executive director 5 January 2001	0.72	5 January 2004 to 4 January 2008	10,000,000
Employees 5 January 2001	0.72	5 January 2004 to 4 January 2008	20,000,000

As at 31 December 2001, there were 30,000,000 (2000: Nil) outstanding share options granted under the Share Option Scheme as stated above.

28. Reserves

(a) Group

	Share premium HK$'000	Merger reserve *(Note (ii))* HK$'000	Revaluation reserve HK$'000	General reserve *(Note (i))* HK$'000	Enterprise expansion fund *(Note (i))* HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2000	–	(46,815)	–	1,746	40	409	7,391	(37,229)
Premium on issue of shares	27,720	–	–	–	–	–	–	27,720
Share issue expenses	(5,927)	–	–	–	–	–	–	(5,927)
Surplus on revaluation of land and buildings	–	–	400	–	–	–	–	400
Loss for the year attributable to shareholders	–	–	–	–	–	–	(7,996)	(7,996)
Transfer from retained earnings to statutory reserves	–	–	–	390	10	–	(400)	–
Exchange differences	–	–	–	–	–	(424)	–	(424)
At 31 December 2000	21,793	(46,815)	400	2,136	50	(15)	(1,005)	(23,456)
Premium on issue of shares	17,736	–	–	–	–	–	–	17,736
Loss for the year attributable to shareholders	–	–	–	–	–	–	(16,118)	(16,118)
Transfer from retained earnings to statutory reserves	–	–	–	111	–	–	(111)	–
Exchange differences	–	–	–	–	–	(66)	–	(66)
At 31 December 2001	39,529	(46,815)	400	2,247	50	(81)	(17,234)	(21,904)

Note:

(i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the PRC by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the "Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment", if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

28. Reserves *(continued)*

(a) Group *(continued)*

(ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the Reorganisation.

(b) Company

	2001	2000
	HK$'000	*HK$'000*
Share premium		
At 1 January	**21,793**	–
Premium on issue of shares	**17,736**	27,720
Share issue expenses	**–**	(5,927)
At 31 December	**39,529**	21,793
Accumulated losses		
At 1 January	**(6,238)**	(300)
Loss for the year	**(8,964)**	(5,938)
At 31 December	**(15,202)**	(6,238)
	24,327	15,555

Under section 34 of the Companies Law (2000 Revised) of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

29. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before taxation to net cash outflow from operating activities:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Loss before taxation	**(15,755)**	(8,381)
Interest income	**(194)**	(311)
Interest on bank loans	**216**	101
Depreciation of fixed assets	**1,775**	1,208
(Gain)/loss on disposal of fixed assets	**(99)**	19
Amortisation of goodwill	**500**	–
Impairment of goodwill	**12,015**	–
Increase in inventories	**(562)**	(153)
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(7,021)**	1,786
Decrease/(increase) in amount due from ultimate holding company	**457**	(457)
Decrease/(increase) in amounts due from related companies	**4**	(8,134)
Decrease/(increase) in loan to a director	**300**	(300)
Increase/(decrease) in trade payables, accruals and other payables	**2,981**	(191)
Increase/(decrease) in amount due to a related company	**2,119**	(118)
Increase in amount due to ultimate holding company	**1,665**	–
Net cash outflow from operating activities	**(1,599)**	(14,931)

29. Notes to the Consolidated Cash Flow Statement *(continued)*

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**77,793**	46,825	**1,869**	1,402
Bank loans repaid	**–**	–	**(1,869)**	(1,402)
Bank loans raised	**–**	–	**2,897**	1,869
Share issued for non-cash consideration *(Note (c))*	**19,616**	–	**–**	–
Net proceeds from issue of shares by the Company	**–**	30,193	**–**	–
Net proceeds from issue of shares by certain subsidiaries before the group reorganisation	**–**	775	**–**	–
At 31 December	**97,409**	77,793	**2,897**	1,869

(c) Major non-cash transactions

(i) On 30 January 2001, a subsidiary entered into a sale and purchase agreement with an independent third party to acquire the non-trading securities as disclosed in note 15 to the financial statements at a consideration of approximately HK$14,950,000. The consideration was satisfied by cash of approximately HK$934,000 and issuing 14,800,000 shares of HK$0.10 each in the share capital of the Company at a price of HK$0.947. Further details have been disclosed in an announcement issued by the Company on 30 January 2001.

(ii) On 6 March 2001, a subsidiary entered into a sale and purchase agreement with an independent third party to acquire all the assets (both tangible and intangible), business and rights of Hua Dian. The consideration was satisfied by cash of approximately HK$9,093,000 and issuing 4,000,000 shares of HK$0.10 each in the share capital of the Company at a price of HK$1.40. Further details have been disclosed in an announcement issued by the Company on 20 February 2001.

29. Notes to the Consolidated Cash Flow Statement *(continued)*

(d) Acquisition of the assets (both tangible and intangible), business and rights of Hua Dian

	Group	
	2001	2000
	HK$'000	*HK$'000*
Net assets acquired		
Fixed assets	**799**	–
Raw materials	**891**	–
Other receivables and prepayments	**242**	–
Bank balances and cash	**250**	–
Other payables	**(4)**	–
	2,178	–
Goodwill	**12,515**	–
	14,693	–
Satisfied by		
Shares allotted *(Note 29(c))*	**5,600**	–
Cash consideration *(Note 29(c))*	**9,093**	–
	14,693	–

Analysis of net inflow/(outflow) in respect of the acquisition

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**9,093**	–
Bank balances and cash acquired	**(250)**	–
Deposit paid in previous year	**(9,000)**	(9,000)
	157	(9,000)

30. Banking Facilities

At 31 December 2001 the Group's banking facilities of HK$2,900,000 (2000: HK$1,900,000) are secured by the following:

(a) legal charge on the land and buildings under long leases outside Hong Kong; and

(b) pledge of the US Dollars deposit of approximately HK$1,560,000.

31. Commitments – Group

(a) Operating lease commitments

At 31 December 2001 the total future minimum lease payments under non-cancellable operating leases for the land and buildings and motor vehicles are payable as follows:–

	2001		2000	
	Land and buildings	**Motor vehicles**	Land and buildings	Motor vehicles
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within one year	**791**	638	**835**	–
In the second to fifth years inclusive	**2,871**	–	**1,470**	1,335
	3,662	638	**2,305**	1,335

(b) Other commitments

At 31 December 2001 the Group had commitments to make payments in respect of retained sponsor fees in total amount of HK$132,000 for the next one year.

32. Retirement Benefit Costs

The Group has implemented a mandatory provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance effective from 1 December 2000. The pension scheme contributions charged to income statement represent contributions payable (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) by the Group to the specified retirement fund of the individual employees. The Group's contribution to the scheme charged to income statement was approximately HK$75,000 (2000: HK$7,000) for the year.

The subsidiaries operating in the PRC are required to participate in defined contribution retirement schemes, organised by relevant local government authorities to the staff in the PRC. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 20% to 23% of the basic salary of their employees in the PRC.

The Group's total contributions paid for the above schemes during the year are HK$466,000 (2000: HK$424,000).

33. Related Party Transactions

In the normal course of business the Group entered into the following significant transactions with its related parties during the year:–

	Group	
	2001	2000
	HK$'000	*HK$'000*
Rental payable to Aspiring International (Group) Limited	**–**	173
Rental payable to Edison	**401**	–
Acquisition of fixed assets from Infonet, the ultimate holding company	**–**	411

Mr. CAI Zuping, a director of the Company, is a director of Edison.

34. Post Balance Sheet Event

There were no significant matters which occurred since the balance sheet date to the date of this financial statements and which have had or may have a material effect on the financial position of the Group at 31 December 2001 or the result for the year then ended.

35. Ultimate Holding Company

The directors regard Infonet Group Co., Ltd., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

36. Comparative Figures

The comparative figures were audited by another firm of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with current year's presentation.

37. Approval of the Financial Statements

The financial statements on pages 26 to 65 were approved by the board of directors on 25 March 2002.

Financial Summary

	For the year ended 31 December			
	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Turnover	**31,893**	19,988	22,787	20,308
(Loss)/profit from operations	**(2,461)**	(8,280)	5,390	9,671
Finance costs	**(216)**	(101)	(97)	(92)
Share of results of associates	**–**	–	–	320
Provision for inventories and prepayments in relation to personal digital assistant business	**(1,063)**	–	–	–
Impairment of goodwill	**(12,015)**	–	–	–
(Loss)/profit before taxation	**(15,755)**	(8,381)	5,293	9,899
Taxation	**(226)**	(6)	(118)	(76)
(Loss)/profit from ordinary activity before minority interests	**(15,981)**	(8,387)	5,175	9,823
Minority interests	**(137)**	391	(15)	141
(Loss)/profit attributable to shareholders	**(16,118)**	(7,996)	5,160	9,964
Assets and liabilities				
Total assets	**53,309**	41,726	19,035	14,800
Total liabilities	**(17,196)**	(9,182)	(9,439)	(8,364)
Minority interests	**(137)**	–	391	–
Shareholders' funds	**35,976**	32,544	9,987	6,436