



# PROSTEN TECHNOLOGY HOLDINGS LIMITED

*(Incorporated In The Cayman Island With Limited Liability)*



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

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

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

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

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### EXECUTIVE DIRECTORS

Mr. Yip Seng Mun (*Chairman*)  
Mr. Yip Heon Ping  
Mr. Yip Heon Wai  
Mr. Yip Heon Keung  
Ms. Chan Fu Kuen, Gladys  
Dr. Clement Lau

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James T. Siano  
Mr. Au Shing Kwok

### COMPANY SECRETARY

Ms. Yim Mandy

### QUALIFIED ACCOUNTANT

Ms. Cheung Ka Yee, *FCCA, AHKSA*

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 906-910  
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108 Gloucester Road  
Hong Kong

### COMPANY HOMEPAGE/WEBSITE

<http://www.prosten.com>

### COMPLIANCE OFFICER

Mr. Yip Heon Keung

### AUTHORISED REPRESENTATIVES

Mr. Yip Heon Keung  
Ms. Chan Fu Kuen, Gladys

### PRINCIPAL BANKER

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Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

### AUDITORS

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*Certified Public Accountants*  
15th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### LEGAL ADVISERS

*as to Hong Kong law:*  
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41st Floor, Jardine House  
1 Connaught Place  
Hong Kong

*as to PRC law:*  
Hai Wen & Partners  
Shanghai P. R. China  
Room 2604, Shanghai Kerry Center  
No. 1515, Nanjing West Road  
Shanghai  
China

*as to Cayman Islands law:*  
Conyers Dill & Pearman, Cayman  
Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong



The Group was founded in 1990 when Prosten Technology Company Limited, a wholly owned subsidiary within the Group was established. It has become a dominant player in its chosen markets and enjoyed a successful track record in providing software solutions, IT and networking services, and large scaled integration services to telecommunication carriers and enterprises. The holding company of the Group was listed on GEM (Stock Code 8026) in March 2000.

The Group currently has 176 employees with 7 branch offices in China with operating offices in major cities including Beijing, Shanghai and Guangzhou. A large-scaled software development center is located in Southern China which is equipped with state-of-the-art facilities and the most talented software developers. Liaison offices are located in various provinces and cities in China to offer customers on-site technical support.





**Chairman's Statement** >>

It has been a year of contrast in the global economic climate. The rise and fall of the dot-com business is just like a roller coaster. The burst of the Internet bubble resulted in severe market slowdown and dramatic fall in valuation of technology-related companies. Telecommunication carriers were more stringent in their capital expenditures and information technology spending.

Despite a downturn of the business, the Group has made achievements in building new competences and capabilities on software development and professional services which have paved a foundation for capturing future growth opportunities. Through a major restructuring effort in August 2001, the Group has successfully re-aligned its business into three business units including Software Solutions Development, Networking and Information Technology Services, and Solution Integrations. The forming of these business units promotes higher degree of technology innovation, empowerment, and responsiveness to the change of the market.

In addition, the Group still maintains a healthy liquidity position and sufficient cash on hand with a current ratio of 6.9 times and cash and bank balances of HK\$133,910,000 as at 31 March 2002.

Utilizing our seasoned management team and strong presence in the People Republic of China (the "PRC"), we will move forward around the following key fundamentals:

- (1) To cope with the negative market conditions and difficult operating environment, we are adopting a conservative and disciplined approach to the control of expenditures and improve gross margin by reducing cash burn and operating loss in order to sustain long term development.
- (2) To become more customer-focused to deliver high quality products and services that add values to our customers we will sharpen efficiencies including the rationalization of products and services that do not add sufficient value to our customer centric approach.
- (3) To build organizational fitness and competitive advantages, combined with the continuing refinements to our organizational structure, we will acquire new skills and upgrade our management team and practices.

While strengthening the fundamentals, the Group will leverage its existing customer base and strong presence in China and seek out growth opportunities organically as well as through ventures and alliances.



## Chairman's Statement

I would like to thank the board for the continued support. On behalf of the board, I would like to express our gratitude and appreciation towards our devoted employees and management of the Group for their hard work and dedication throughout the year. We believe the Group can excel at building on fundamentals, while steadily achieving high efficiencies and focus on customer needs. At Prosten, we strongly believe that if we deliver on our fundamentals, shareholder value will be realized.

**Yip Seng Mun**

*Chairman*

Hong Kong, 25 June 2002





**Management's Discussion  
and Analysis >>**



## BUSINESS REVIEW

### A. OPERATING RESULTS

#### Revenue and Gross Margin

For the year ended 31 March 2002, the Group's turnover has been decreased by approximately 45.9% from previous year of HK\$186,122,000 to HK\$100,679,000. The decrease was mainly due to a substantial decline in revenue from applications software, e-commerce solutions and related IT consultancy services.

During the year, about 95% of the Group's turnover was generated from broadband data networks and Internet backbone solutions and the remaining 5% came from applications software, e-commerce solutions and related IT consultancy services. Revenue from broadband data networks and Internet backbone solutions represented an overall increase of HK\$34,479,000. Revenue from applications software, e-commerce solutions and related IT consultancy services was substantially dropped by HK\$119,922,000.

The Group's gross profit margin reduced to 8.9%, it was mainly due to the keen market competition and price downward adjustment pressure in the PRC.

#### Loss Attributable to Shareholders

The Group recorded a net loss attributable to shareholders of HK\$165,439,000 for the year ended 31 March 2002, whereas a net profit attributable to shareholders of HK\$13,967,000 was recorded for the previous year.

#### Operating Expenses

In this year, total operating expenses increased to HK\$178,780,000 compared to HK\$75,581,000 in 2001, it was mainly due to that the general and administrative expenses were greatly increased by HK\$13,801,000. Such a substantial increment was due to increase in staff costs and depreciation charge.

In addition, at 31 March 2002, the Group has made a provision on impairment of a long term investment amounted to HK\$39,548,000 by reference to a valuation performed by an independent firm of professional valuers. This is because the decline of the valuation of the long term investment as compared to its original carrying value is not temporary in nature.

For the provision for doubtful debts, the Group has continued to adopt a more prudent view to make provision for long outstanding debts especially the debts for more than one year. For the impairment of fixed assets, it was due to the closure of an internet data center in Hong Kong and movements of the PRC offices.

#### Other operating expenses

Other operating expenses increased to HK\$12,097,000 as compared to HK\$169,000 last year. The increase was due to the current year's expenditure on research and development costs, impairment of deferred development costs and the bad debts written off.



### Financial Position

As at 31 March 2002, the Group's total assets amounted to HK\$257,395,000, representing a decrease of HK\$181,036,000 from the previous year. Total liabilities amounted to HK\$27,733,000, representing a decrease of HK\$15,563,000 from the previous year. The Group had a healthy liquidity position with a current ratio of 6.9 as at 31 March 2002 (2001:8.3).

### Liquidity and Financial Resources

As at 31 March 2002, the Group's total shareholders' funds amounted to HK\$229,662,000 compared with HK\$395,135,000 at 31 March 2001. The Group had net current assets of HK\$159,782,000 including cash and bank balances of HK\$133,910,000 compared with net current assets of HK\$318,498,000 including cash and bank balances of HK\$206,187,000 at 31 March 2001. The Group maintained a very healthy working capital at the balance sheet date even though a net loss result was recorded this year.

As at 31 March 2002, the Group has bank loans of HK\$2,357,000 which was secured by bank deposits with interest charged at variable commercial rates prevailing in the PRC. Most of the Group's bank balances are denominated in Hong Kong dollars and United States dollars, risk in exchange rate fluctuation would not be material.

Total bank facilities was approximately HK\$68,014,000 from several banks for overdrafts, loans and other financing, of which HK\$4,466,000 was used. Such facilities were secured by pledges of the Group's bank deposits of HK\$6,814,000 and guaranteed by the Company. The Group did not have any significant contingent liabilities as at 31 March 2002.

### Employees and Remuneration Policies

The total number of employees in the Group was 176 as at 31 March 2002 (2001: 209). The Group's remuneration policy is basically determined by the performance of individual employees. In addition to salaries, employee benefits included medical scheme, pension contributions and share option schemes.

## B. BUSINESS DEVELOPMENT

The Group has successfully built new competences by re-aligning its business into 3 business units including, Software Solutions, Solution Integrations and IT and Networking Services. Excluding software solutions, the other two being the heritage of the Group's core business in large-scale network integration.



### Software Solutions

The Group continues to deliver innovative software products and solutions based on the kiNETic product series. With a team of software developers located in Shenzhen Special Economic Zone in China, the team has contributed to our business development in securing new projects against international competitions. The Group's kiNETic BillCare WLAN (Wireless Local Area Network) solution was selected by China Telecom–Shanghai to be the official WLAN software solution provider for the APEC (Asia Pacific Economic Co-operation) and Bao Forum Asia conferences held in Shanghai last year and Hainan this year. This solution enabled China Telecom to offer wireless broadband access capability with billing, authentication and pre-paid functions for its attendee within the conference premises. The success has generated interests from other carriers to approach the Group to offer similar WLAN solutions and services in China. On the other hand, the software business unit is teaming up with PCCW (Pacific Century CyberWorks) to provide the first integrated multimedia broadband application platform for China Telecom–Shangdong. This platform will enable the carrier to provide real time news broadcasting, video on demand, games and online advertising capabilities over the internet. Another innovative product, kiNETic Publisher, has emerged from the idea of integrated information distribution system. This product was being deployed by China Unicom–Shangdong for its information distribution services for mobile users via short message system and mobile portal. In order to attract new revenue, the Group is negotiating a contract to provide information distribution services jointly with China Unicom in Shangdong province. Unified messaging services is also picking up the pace in China as one of major value added services for service providers, internet content providers and carriers. kiNETic Messenger is well positioned to capture future growth opportunities.

### Solution Integrations

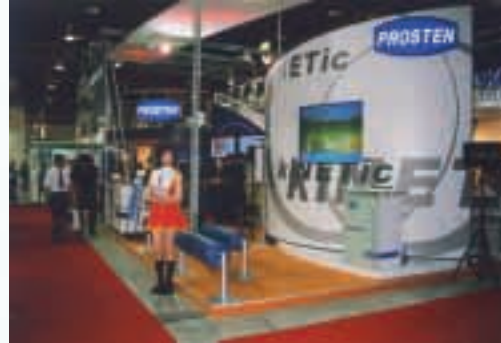
Despite a slow down in the telecommunication segment, the Group was awarded the China Unicom phase III voice over IP (VoIP) network expansion contracts to deliver its consultant and network integration services covering 8 provinces and over 240 cities throughout China. This network is considered as the world's largest VoIP backbone in service today. The undertaking of this project further proves the Group's ability to manage national scaled networking projects with its technical expertise and service quality. Most importantly, this success has paved the way to undertake similar expansion work in the future within China Unicom.

### IT and Networking Service

The IT and Networking service unit provides nationwide coverage for five service elements including networking engineering, maintenance, assessment, system management and e-business consulting services, to carrier class operators and multinational enterprises through a wholly owned subsidiary Unison Networking Services (Shanghai) Ltd. The service unit is servicing 263.net, which is one of the largest internet data centre and internet system provider in Shanghai. For multinational company, the Group has signed up Novartis to provide end-to-end network services which spans across all service elements. The business unit is negotiating a service contract to provide WLAN service for a Fortune 100 company, but no definite terms have been arrived.

**C. SALES AND MARKETING ACTIVITIES**

The Company participated the 10th ELE/EXPO COMM SHANGHAI 2001 Exposition this fiscal year. ELE/EXPO COMM SHANGHAI 2001 is co-sponsored by the United Nations, United Nations Development Programme (UNDP), Shanghai Municipal Government, the Ministry of Information Industry and the Chinese Academy of Sciences. This was one of the most prestigious exhibitions of the Communication and IT industry held in China this year. The main focus of the Company at this exposition was to showcase the new publisher platform that unified information access and retrieval through web based or wireless user terminals.



In July, the Company attended the Palm Enterprise Open Day & Summit 2001 Hong Kong conference. At this event, the Company's kiNETic Switcher was presented and a live demonstration was held at the exhibition booth.

With the successful launch of the service unit, a host of service products have been introduced into the market and have been well received. New applications of the kiNETic Publisher platform have also been productised and introduced into the marketplace. Overall, the suite of products and services offered by the Company has become more complete in this year.

**D. RESEARCH AND DEVELOPMENT**

The ShenZhen Software Development Centre has made some achievements this year.

To ensure better management of our software development life cycle and to deliver quality software products, two certifications were successfully acquired. They are namely the MII's (Ministry of Information Industry) Software Industry Certification and the international standard ISO 9001:2000. Customers' satisfaction level had clearly increased as a result of strict implementation of the standards.



On the product development side, we had not only implemented feature enhancements to our existing kiNETic family of products, but had also developed and deployed two more new IP based and Mobile solutions to ensure competitiveness and continual success of the kiNETic product series. They are summarized as below:

| <b>Products</b>      | <b>Features Supported</b>   |
|----------------------|---|
| kiNETic BillCare 4.0 | Integrated Business & Operating Support System<br>Scalable and flexible architecture  |
| kiNETic Messenger    | Paid e-mail<br>Wireless integration (SMS, WAP/GPRS, MMS)<br>Personal information management<br>Interactive voice response and recognition system (IVRS)   |
| kiNETic Publisher    | Information services over wireless & wired devices<br>Entertainment services over wireless & wired devices<br>Multimedia based information and entertainment services over wireless and wired devices |
| kiNETic Switcher     | Transactional capability that supports real time security trading and lottery tickets booking   |

In terms of partnership, the ShenZhen Software Development Center had established strategic alliance with numerous local and international companies.

In addition, the Software Center is considering to productize a carrier class call center application based on advanced CTI (Computer and Telephony Integration) and IVRS (Interactive Voice Response and Recognition System) technology (UniVoice) previously acquired by the Group.

The Group has bundled the CTI and IVRS technology to its existing kiNETic family of products.



## OUTLOOK

Following a difficult year of 2001 and with our determination to build on fundamentals, the Group is well positioned to face challenges ahead. We will be more customer-centric and have aligned our business into three business units with each led by seasoned management teams determined to build and lead their business units to growth.

- The Group will continue to seek for growth opportunities through ventures and alliances.
- The Software Solution Unit will continue the development of kiNETic line of products with more focused on market and customer needs.
- The IT and Networking Services Unit will continue the expansion of customer base to include multinational customers in China.
- The Solution Integration Unit will continue to serve large-scaled network infrastructure projects.
- The Group will continue to control its expenditures and improve gross margin by reducing cash burn rate and operating expenses.

The Group will continue to increase its competitive advantage and efficiency through the continuing refinement of its organization structure and upgrade of the management team.



### COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress to the business objectives set out in Prospectus in 2000:

| <b>Business Objectives</b>  | <b>Actual Business Progress</b>      |
|---|--------------------------------------|
| 1. The Group's business objectives for the six months ended 30 September 2001 |                                      |
| (1) <i>Broadband data networks and internet backbone solutions</i>            |                                      |
| Extend coverage to a new province on data network projects                    |                                      |
| Final testing of Phase II of the Zhe Jiang ATM/FR broadband network project   | Final acceptance testing in progress |
| Tender China Unicom VoIP phase III expansion project                          | Tender awarded                       |
| Henan Province China Unicom MAN project                                       | Project awarded                      |
| Tender Ningxia China Telecom provincial ATM network                           | Tender awarded                       |
| Sanlian MAN BOSS System   | Completed                            |
| Haian China Telecom's 163/169 Internet infrastructure expansion               | Project awarded                      |
| Hainan China Telecom Data 97 BOSS Project                                     | Project awarded                      |



**Business Objectives**

**Actual Business Progress**

(2) *Applications software development*

|  |   |
|--|---|
| <p>Release the IMS version 3.0, which is intended to be a packaged Software with enhanced features</p>           | <p>Successfully re-branded and released IMS 3.0 as kiNETic BillCare 3.0. kiNETic BillCare 4.0 is under development</p>  |
| <p>Release Video-on-Demand Management System version 1.0 and Human Resources Management System version 1.0</p>   | <p>Commenced the development of multimedia broadband application management platform including the support of Video-On-Demand Management System. KiNETic BillCare is being used as the core management platform for the VOD system. Since the Human Resources Management System had no synergies with the Group's core business, the development was cancelled.</p> |
| <p>Start development of preliminary product architecture relating to Internet security applications software</p> | <p>The Group decided to look for strategic partners instead of doing development itself due to the complexity and large resources requirement.<br/>On-going</p>   |
| <p>kiNETic BillCare 4.0/Integrated Business &amp; Operating Support System for Unicom</p>                        | <p>Commenced</p>  |
| <p>kiNETic BillCare 3.0/Wireless LAN Development and enhancement</p>   | <p>Commenced</p>  |
| <p>kiNETic Switcher for Fujian Telecom – (Preliminary acceptance test)</p>                                       | <p>Completed</p>  |
| <p>kiNETic Messenger solution development and deployment</p>   | <p>On-going</p>   |
| <p>kiNETic Publisher for ShanDong Unicom</p>   | <p>Commenced</p>  |
| <p>SMS development and deployment</p>  | <p>Trial system completed</p>   |
| <p>kiNETic BillCare 3.0/Cable Modem for SheKou CATV</p>  | <p>Completed</p>  |
| <p>kiNETic BillCare 3.0/Data 97 for Hainan Telecom</p>   | <p>Completed</p>  |





### Business Objectives

### Actual Business Progress

(3) *e-commerce solutions and related IT consultancy services*

Form a specialized team concentrating on development of e-commerce logistic system and software

The team was formed but was dispatched to the development of kiNETic Switcher instead of logistic system. KiNETic Switcher is now being used in Fujian China Telecom for the Fujian 179 project

Render consultancy services to PTAs which would like to offer additional value-added services including ASP's and other broadband related applications

kiNETic Publisher has been developed for the purpose to offer value-added services to PTAs (carriers). Shandong China Telecom is using this product to provide information distribution services to its mobile subscribers

Enter into strategic alliance with reputable international ISP to allow the Group's access to the latest technology on ASP

Delayed due to the burst of dot-com bubble and unfavorable ISP market

Integration of BillCare with 3.0 Switcher for Fujian 179 project

2nd phase completed

Feasibility study on the integration of SINFINDER to Switcher

Completed

(4) *Broadband ISP*

So far as permitted under the PRC law, negotiate and (if viable) enter into joint venture agreements with PTAs in China to launch a broadband ISP in China.

Delayed due to the telecommunication regulation and policy in China

Provide ASP services for Hewlett Packard

In progress



| Business Objectives  | Actual Business Progress   |
|--|--|
| (5) <i>Sales and marketing</i>   |  |
| Promote sales of the Group's applications software through leading and emerging software vendors | Completed  |
| Promote e-commerce logistic system and softwares   | Cancelled due the lack of synergies with the Group's core business                                     |
| Formulate the marketing strategy and plan for launching of ASP in China                          | Delayed due to the slow market response  |
| Deploy additional marketing resources to cover more provinces in the Southern part of China      | Completed  |
| Promotions of kiNETic family of products   | Attended a telecom EXPO in Shanghai and join marketing summit with Palm Inc. in Hong Kong<br>Completed |
| Generate new revenue source from IT and networking services                                      | Set up new business unit for service business<br>Completed   |
| (6) <i>Resources employment and administration</i>   |  |
| Organise training programme for the Group's marketing and technical staff                        | Completed  |
| Recruit additional personnel for development and technical Support for ASP                       | Completed  |
| Recruit additional sales personnel for marketing of ASP  | Completed  |
| Set up additional technical staff team in Shenzhen office for developing software products       | Completed  |
| Continue training program for sales on mobile and e-commerce and solution selling                | On-going   |



| Business Objectives   | Actual Business Progress  |
|---|---|
| 2. The Group's business objectives for the six months ended 31 March 2002                       |   |
| (1) <i>Broadband data networks and internet backbone solutions</i>                              |   |
| Develop, and (if possible) provide solutions service for wireless broadband Internet network    | Developed kiNETic BillCare for WLAN (Wireless Local Area Network). Completed  |
| Pre-acceptance phase for China Unicom VoIP Phase III expansion                                  | Commenced   |
| Ningxia China Telecom provincial ATM network  | Completed   |
| Henan Province China Unicom MAN project pre-acceptance  | On going  |
| Hainan China Telecom's 163/169 Internet infrastructure expansion project                        | Completed   |
| Hainan China Telecom Data 97 BOSS Project   | Completed   |
| (2) <i>Applications software development</i>  |   |
| If the previous launch in China is successful, launch IMS in the US and the Asia Pacific region | The new product is named kiNETic BillCare. The Group has postponed the launch of its application solution in US and the Asia Pacific region but has put in more effort on the development and marketing of kiNETic BillCare in China. |



| Business Objectives  | Actual Business Progress  |
|--|---|
| (3) <i>e-commerce solutions and related IT consultancy services</i>  |   |
| Develop applications software for business-to-customer e-commerce transactions   | Provided e-infrastructure platform by launching kiNETic Switcher for business-to-customer e-commerce transactions. Commenced                                      |
| Prepare the launching of business-to-customer e-commerce transactions  | Deployed by Fujian China Telecom Completed  |
| (4) <i>Broadband ISP</i>   |   |
| So far as permitted under the PRC law, launch a broadband ISP in China   | Delayed due to the regulation and policy in China   |
| Provide ASP services for Hewlett Packard   | In progress   |
| (5) <i>Sales and marketing</i>   |   |
| Expand the market share of the Group in the portal site market with an emphasis on the Eastern and Southern parts of China         | The Group has cancelled this initiative because it had no synergies with the Group's core business  |
| Transform the Group's Guangzhou software centre into an out-source program processing center                                       | The Software Development Center has been moved to Shenzhen Economic Special Zone in China and as a new business unit (Software Solutions) of the Group. Completed |
| (6) <i>Resources employment and administration</i>   |   |
| Organise training programme for the Group's marketing and technical staff  | Completed   |
| Recruit overseas project manager to formulate the overall strategy<br>On launching of business-to-customer e-commerce applications | Completed   |
| Introduction of quality management and streamline internal procedures and quality assurance programs                               | Completed   |
| Obtain ISO 9001:2000 certification for software development, network integration services and internet data center operations      | Completed   |



### USE OF PROCEEDS

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$363 million from the new issue of shares by way of placing. During the year, the Group has applied the net proceeds as follows:

HK\$ million

|  |       |
|--|-------|
| For expanding broadband data networks and Internet backbone solution operations in the Greater China region                              | 105.9 |
| For the development of applications software for network operations  | 55.4  |
| For the investment and development of e-commerce platforms and related applications software for ASP                                     | 55.5  |
| For the acquisition of hardware and software for setting up a broadband ISP in Hong Kong and for related marketing and operational costs | 30.3  |
| For advertising and promotional expenses for expanding broadband data networks solution operations in the Greater China region           | 3.2   |
| For deployment of human resources, setting up representative offices in target regions and related administration                        | 2.6   |
|  | <hr/> |
|  | 252.9 |
|  | <hr/> |

As at 31 March 2002, the Group's cash and bank balances were HK\$133,910,000, representing the unused proceeds of the initial public offering and funds generated from the Group's operation.

**Product Highlights >>**

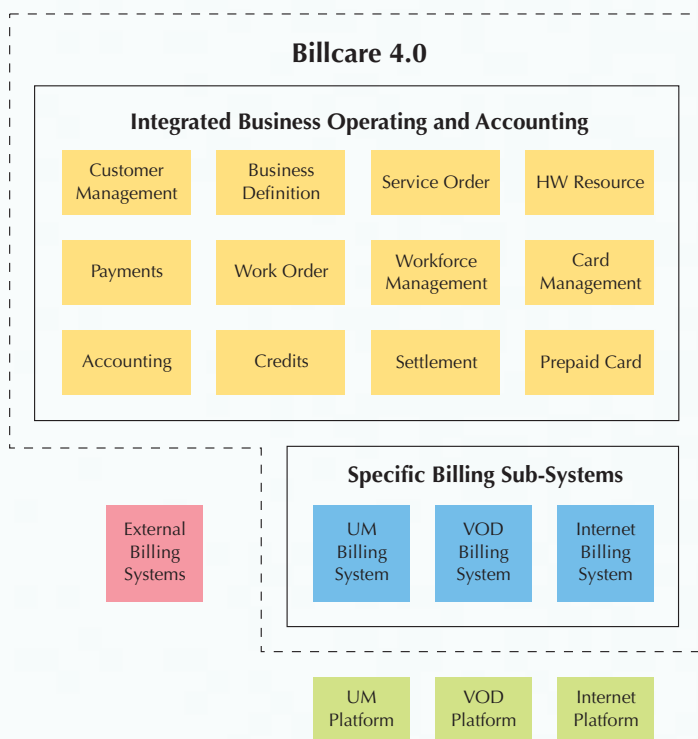


**BUSINESS OPERATING SUPPORT SYSTEM (BOSS)**

- **KiNETic BillCare**

In order for BillCare to stay competitive and meeting the ever changing market and customer needs, the existing BillCare 3.0 has been re-architected into next generation BillCare 4.0 based on the latest technologies to meet the new business needs of China’s carriers.

The Billcare 4.0 realizes customer servicing in ways of “process all businesses within one bill”; “process all businesses within one counter” and to implement “cross business incentives”.



**BillCare 4.0 Framework**

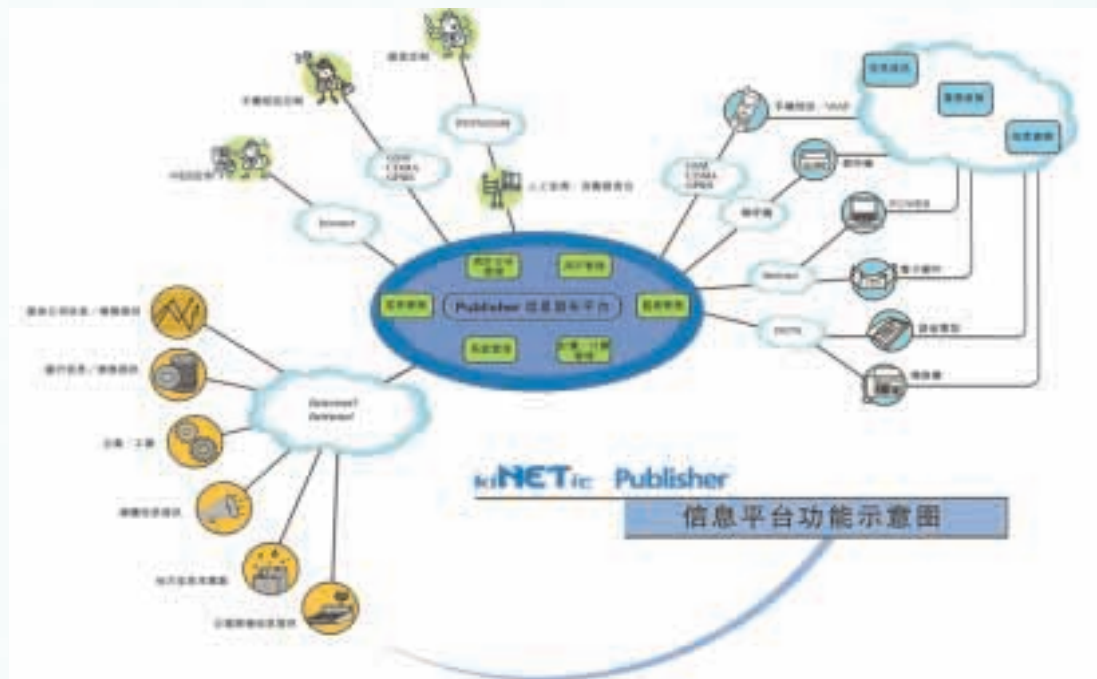
Billcare 4.0 implements unified customer information; give foundation for integrated data analysis and decision supports to give well supports for business.

Billcare 4.0 implements unified business processing interfaces; Process businesses by centralizing the service order’s processing. Implement unified bank interfaces for payments. Implement inquiry and summary functions for all the businesses.



IP BASED MESSAGING APPLICATIONS

- **KiNETic Publisher**



kiNETic Publisher is the new value-added IP based solutions developed on SMS, WAP/GPRS and CDMA network targeted for mobile operators.

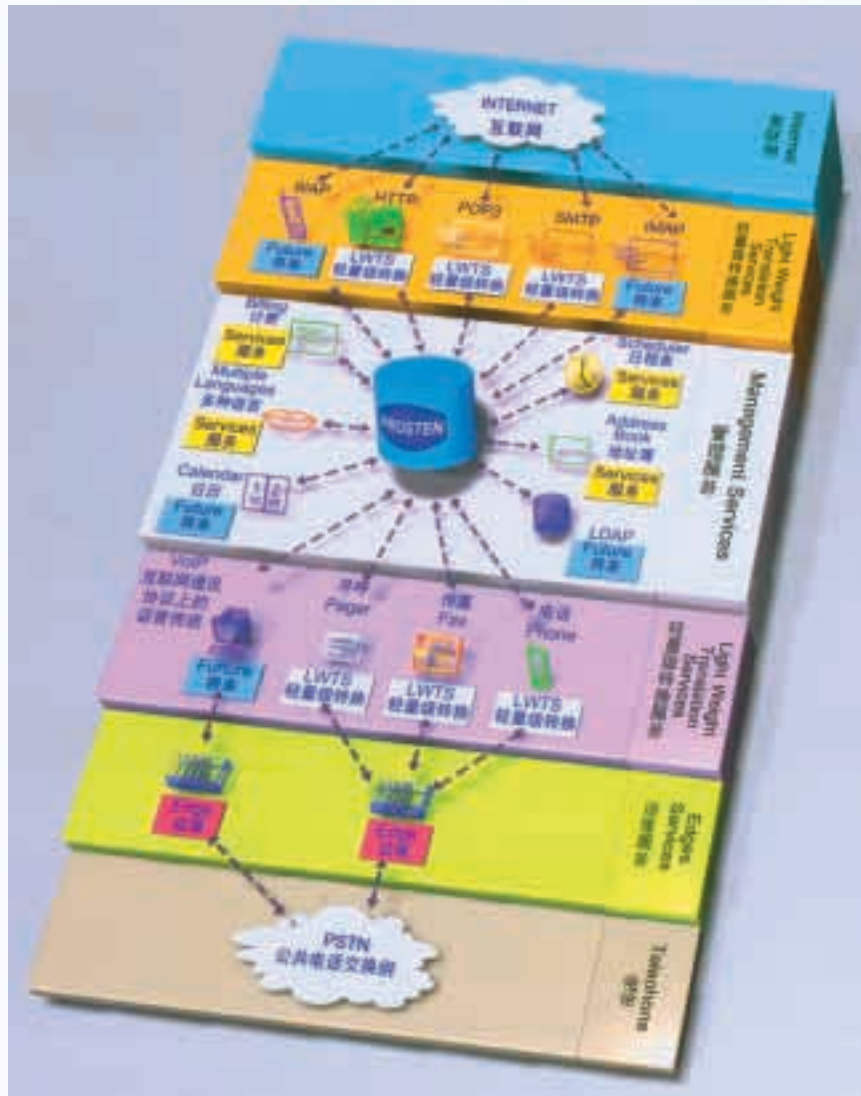
Publisher is an integrated information distribution system. ICPS' connections are realized through an embedded intelligent search engine and XML based data interface. While access to terminal devices are realized through the various telecommunication gateways (eg. SMS, pager, voice) connected to the carriers. End users can personalize the type of information they received. The system also supports billing, editing and filtering functions to ensure data integrity and usability.





- **KiNETic Messenger**

Tremendous enhancements and customizations had been made to the product to make it a more mature and stable product suiting the special market and business needs of the carriers and virtual operators in China.



**KiNETic Messenger Architecture**

The product now supports many new features like, one number, wireless e-mail through WAP/GPRS, SMS alerts and integrations. The roaming capability allows users to access their multimedia mailbox anytime and anywhere.

E-COMMERCE INFRASTRUCTURE PLATFORM

- KiNETic Switcher



Switcher had been fully operational in Fijian Telecom and was brought into production service in May 2001. It had proven to be a stable, reliable and scalable, e-commerce platform which is capable of processing up to several hundred thousand of enquiries and transactions daily.

Also, new features are being developed to support China's Football & Welfare lotteries which allows mass users was to enjoy on-line betting through different kinds of terminal devices like phones, PCs, PDAs. etc.



# Directors and Senior Management



### EXECUTIVE DIRECTORS

**Mr. Yip Seng Mun**, aged 71, is a founder and the Chairman of the Group. He is responsible for formulating the overall business strategy and plans of the Group. Mr. Yip worked for Cable & Wireless HKT for about 20 years and was one of the senior executives in its PRC operations. Mr. Yip is the father of Mr. Yip Heon Ping, Mr. Yip Heon Wai and Mr. Yip Heon Keung.

**Mr. Yip Heon Ping**, aged 44, is an executive Director and the General Manager of the Group in charge of the Group's overall management function. He holds a bachelor's degree in electrical engineering from Iowa State University, USA. He worked for Hewlett Packard for more than 10 years before joining the Group in December 1992. Mr. Yip is a son of Mr. Yip Seng Mun and a brother of Mr. Yip Heon Wai and Mr. Yip Heon Keung.

**Mr. Yip Heon Wai**, aged 41, is a founder and the Managing Director of the Group in charge of the overall corporate strategies and business development of the Group. He holds a bachelor's degree in applied computer science from Illinois State University, USA. He joined the Group in 1990 and has more than 14 years of experience in the information technology industry. Mr. Yip is a son of Mr. Yip Seng Mun, the spouse of Ms. Chan Fu Kuen, Gladys and a brother of Mr. Yip Heon Ping and Mr. Yip Heon Keung.

**Mr. Yip Heon Keung**, aged 32, is an executive Director of the Group in charge of strategic alliances with vendors and business partners. He is a PMD graduate from Harvard University and holds a bachelor's degree in electrical engineering from the University Wisconsin-Madison, USA. Before joining the Group, he worked in a software-consulting firm as a consultant in the USA. He has more than 9 years' experience in the information technology industry and he has been with the Group since October 1996. Mr. Yip is a son of Mr. Yip Seng Mun and a brother of Mr. Yip Heon Ping and Mr. Yip Heon Wai.

**Ms. Chan Fu Kuen, Gladys**, aged 40, is an executive Director of the Company in charge of finance and administration. She holds a bachelor's degree in science and a master degree in business administration, both from Illinois State University, US. She has more than 6 years' experience in systems development in the banking and telecommunications industry and 8 years of experience in finance and administration. She has been with the Group since June 1993. Ms. Chan is the spouse of Mr. Yip Heon Wai.

**Dr. Clement Lau**, aged 43, is the Vice President of the Company responsible for e-commerce solutions. Dr. Lau holds a Ph.D. from Canada and has had over 12 years' experience in the IT industry. Dr. Lau has over 9 years' experience in the Asia market having worked for Cray Research and Platform Computing before joining the Group in May 2000.



### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. James T. Siano** was appointed as a non-executive Director in March 2000. He holds a master's degree in business administration from Pace University located in the US. He is the president and the chief executive officer of Montblanc Pacific Distributors Ltd. which is the Asia Pacific regional headquarters for the Montblanc brand. Previously, Mr. Siano was the managing director of Swatch Group of Switzerland (Hong Kong) Ltd. Mr. Siano has 22 years' experience in sales, marketing and finance, including nine years in Hong Kong.

**Mr. Au Shing Kwok** was appointed as a non-executive Director in March 2000. He obtained a diploma in electrical engineering from Royal Melbourne Institute of Technology (Australia) and has been a chartered engineer since 1980. He has been a member of Institute of Engineers (Australia) since 1969. He works as a building services consulting engineer and has been involved in the design and project management of building services for a number of major buildings in Hong Kong, the PRC and overseas.

### SENIOR MANAGEMENT

**Mr. Tung Man Chi, David** is the Chief Technical Officer of the Group responsible for the development of Internet/Intranet based applications and products. He is also responsible for the infrastructure design and implementation of projects in the telecommunications and utilities sectors. He holds a bachelor's degree in computer science from the United Kingdom and is a chartered engineer and a member of The Institution of Electrical Engineers, United Kingdom. Prior to joining the Group in February 2000, David worked for Cable and Wireless HKT Limited for 13 years.

**Mr. Zhao Guo Qing, Gary** is the Executive Vice President of the Group and is in charge of PRC Sales and Marketing Departments. He has over 30 years' experience in telecommunication industry in China.

**Mr. Chan Kwok Chuen, Murphy** is the General Manager of UNISON Networking Services (Shanghai) LTD. He is responsible for overall business direction and development of Unison. He has 10 years' IT and Network business experience in China Market. He holds a bachelor's degree in computer science from the Hong Kong Polytechnic University.

**Ms. Diana Jen** is the Chief Financial Officer of the Group and is in charge of the Group's overall financial matters. Diana holds a master degree in Taxation and a bachelor's degree in Accounting. She has been with big five public accounting firms for over 14 years and is an associate member of the Hong Kong Society of Accountants and American Institute of Certified Public Accountants. She is also a certified public accountant in China.

**Ms. Cheung Ka Yee** is the Financial Controller of the Group and is in charge of the accounting department in Hong Kong. She holds a diploma in accountancy from Hong Kong and is a fellow member of The Chartered Association of Certified Accountants and an associate member of the Hong Kong Society of Accountants. She has over 10 years' experience in accounting, auditing, taxation and finance.

**Ms. Yim Mandy** is the Company Secretary of the Group. Ms. Yim is a practising solicitor in Hong Kong and is currently a solicitor with Chiu & Partners, the Company's legal advisers as to Hong Kong law.



The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 20 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and by geographical area of operations for the year ended 31 March 2002 is set out in note 5 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 78.

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2002.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the five years ended 31 March 2002 and the assets and liabilities of the Group as at 31 March 2002, 31 March 2001 and 31 March 2000.

### RESULTS

|  | Year ended 31 March |          |          |          |          |
|--|---------------------|----------|----------|----------|----------|
|  | 2002                | 2001     | 2000     | 1999     | 1998     |
|  | HK\$'000            | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER   | <b>100,679</b>      | 186,122  | 206,766  | 161,133  | 119,018  |
| PROFIT/(LOSS) BEFORE TAX   | <b>(165,408)</b>    | 11,525   | 34,415   | 17,496   | 8,455    |
| Tax  | <b>(31)</b>         | 2,442    | (2,179)  | (2,492)  | (1,725)  |
| NET PROFIT/(LOSS) FROM<br>ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO<br>SHAREHOLDERS | <b>(165,439)</b>    | 13,967   | 32,236   | 15,004   | 6,730    |



SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS AND LIABILITIES

|  | <b>31 March<br/>2002<br/>HK\$'000</b> | 31 March<br>2001<br>HK\$'000 | 31 March<br>2000<br>HK\$'000 |
|--|---------------------------------------|------------------------------|------------------------------|
| Fixed assets   | <b>11,173</b>                         | 18,813                       | 11,614                       |
| Deferred development costs   | <b>2,175</b>                          | 5,542                        | –                            |
| Intangible asset   | <b>44,359</b>                         | 45,889                       | –                            |
| Deposits and club debenture  | <b>2,272</b>                          | 3,279                        | –                            |
| Long term investment   | <b>10,372</b>                         | –                            | –                            |
| Deposit paid for the proposed acquisition of<br>a long term investment | –                                     | 3,114                        | –                            |
| Current assets   | <b>187,044</b>                        | 361,794                      | 453,266                      |
| Current liabilities  | <b>(27,262)</b>                       | (43,296)                     | (70,603)                     |
| Non-current liabilities  | <b>(471)</b>                          | –                            | (457)                        |
| Total net assets   | <b>229,662</b>                        | 395,135                      | 393,820                      |
| Share capital  | <b>51,125</b>                         | 51,125                       | 51,125                       |
| Reserves   | <b>178,537</b>                        | 344,010                      | 342,695                      |
|  | <b>229,662</b>                        | 395,135                      | 393,820                      |

Notes:

1. The summary of the Group's published results for each of the three years ended 31 March 2000 has been prepared on a pro forma basis as if the current structure of the Group had been in existence throughout these financial years.
2. As the Company was incorporated on 22 November 1999 and became the ultimate holding company of the companies now comprising the Group on 7 March 2000, the assets and liabilities of only three years of the Group are presented.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 20 to the financial statements.



## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, and details of the Company's share option scheme are set out below under the section "Share option scheme" and in note 29 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands, amounted to HK\$178,537,000. Under the laws of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 85% of the total sales for the year and sales to the largest customer included therein amounted to 31%. Purchases from the Group's five largest suppliers accounted for 90% of the total purchases for the year and purchases from the largest supplier included therein amounted to 68%.

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





### DIRECTORS

The directors of the Company during the year were as follows:

#### **Executive directors:**

Mr. Yip Seng Mun

Mr. Yip Heon Ping

Mr. Yip Heon Wai

Mr. Yip Heon Keung

Ms. Chan Fu Kuen, Gladys

Dr. Clement Lau

Mr. Chiu Wai Ki

(resigned on 11 December 2001)

#### **Independent non-executive directors:**

Mr. James T. Siano

Mr. Au Shing Kwok

In accordance with article 108 of the Company's articles of association, Messrs. Yip Heon Ping, Yip Heon Wai and Yip Heon Keung will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

### DIRECTORS' SERVICE CONTRACTS

Except for Mr. Chiu Wai Ki, who resigned on 11 December 2001, and Dr. Clement Lau, each of the executive directors has entered into service contracts with the Company for an initial term of three years commencing from 1 March 2000 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Such notice shall not expire until after the fixed term.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company in respect of his service to the Company in the capacity of a director which is not determinable by the Company within one year without payment, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.



## PENSION COSTS

Details of the Group's pension scheme are set out in note 3 to the financial statements.

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 March 2002.

## DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2002, the interests of the directors of the Company and their associates in the issued share capital and warrants of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

### Ordinary shares of the Company

| Name of director  | Notes | Number of shares held and nature of interest |        |            |             |
|-------------------|-------|--|--------|------------|-------------|
|                   |       | Personal                                     | Family | Corporate  | Other       |
| Mr. Yip Heon Ping | (1)   | –  | –      | –          | 404,280,619 |
| Mr. Yip Seng Mun  | (2)   | –  | –      | –          | 248,349,584 |
| Dr. Clement Lau   | (3)   | –  | –      | 20,719,381 | –           |

#### Notes:

- (1) These shares were held by Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustees of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all the units of which were held by Cititrust (Cayman) Limited as trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Heon Ping as the discretionary object for the time being.
- (2) These shares were held by Century Technology Holding Limited and Bakersfield Global Corporation and were beneficially owned by Mr. Yip Seng Mun.
- (3) The 20,719,381 shares were held by First League Investments Limited, a company of which Dr. Clement Lau was a director and held 40% of its equity interest.



**DIRECTORS' INTERESTS IN SHARES AND WARRANTS** (Continued)

**Warrants of the Company ("2004 Warrants")**

| Name of director | Note | Number of 2004 Warrants held and nature of interest |        |           |       |
|------------------|------|---|--------|-----------|-------|
|                  |      | Personal  | Family | Corporate | Other |
| Dr. Clement Lau  | (1)  | –   | 23,850 | 9,983,750 | –     |

Note:

- (1) 9,983,750 units of the 2004 Warrants were held by First League Investments Limited, a company of which Dr. Clement Lau was a director and held 40% of its equity interest. In addition, Dr. Clement Lau and his wife also held an aggregate of 23,850 units of the 2004 Warrants as at 31 March 2002. Each of the unit of the 2004 Warrants can be subscribed for one share of the Company at a subscription price of HK\$1.43 per share, payable in cash and subject to adjustment, during the period from 9 January 2001 to 8 January 2004.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

In addition to the above, certain directors had non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the requirement for a minimum number of shareholders.

Save as disclosed above, at 31 March 2002, none of the directors of the Company or their associates had any personal, family, corporate or other interests in the issued share capital and warrants of the Company or any of its associated corporations, as defined in the SDI Ordinance.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the sections "Directors' interests in shares and warrants" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.



## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors and employees of the Group. Under the terms of the share option scheme adopted by the Company on 7 March 2000, the board was authorised, at its absolute discretion, to grant options to the Company's directors and employees of the Group, to take up options to subscribe for shares of the Company. The share option scheme became effective for a period of 10 years commencing on the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 March 2000 (the "Old Scheme").

Pursuant to the annual general meeting held on 27 July 2001, ordinary resolutions were passed by the shareholders to approve the cancellation and the re-grant of the share options under the Old Scheme.

Subsequent to the balance sheet date, an extraordinary general meeting of the Company was held on 9 April 2002 (the "EGM"). Ordinary resolutions to approve the termination of the Old Scheme and the adoption of a new share option scheme (the "New Scheme") were duly passed by the shareholders at the EGM.

Upon termination of the Old Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The New Scheme became effective for a period of 10 years commencing on 23 April 2002. Under the New Scheme, the directors may, at their sole discretion, grant to any eligible participants under the New Scheme options to subscribe for shares of the Company at the higher of (i) the closing price of shares of the Company on the GEM as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares of the Company on the GEM as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share. The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determinable by the directors, and commences after a certain vesting period and ends in any event not later than 10 years from the date of the offer on which the offer for grant of the option is made, subject to the provisions for early termination thereof.

The maximum number of securities to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time.



**SHARE OPTION SCHEME** (Continued)

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the EGM.

Subsequent to the balance sheet date, on 22 May 2002, a total number of 20,630,000 share options were granted under the New Scheme with an exercise price of HK\$0.26 per share. Out of the 20,630,000 options granted, 500,000 options and 20,130,000 options were granted to the directors and employees, respectively, to subscribe for shares of the Company.

The following share options were outstanding during the year:

| Name or category of participant | At 1 April 2001 | Cancelled during the year | Number of share options    |                           |                        | At 31 March 2002 | Date of share options re-granted * | Exercise period of share options re-granted | Exercise price of share options re-granted** HK\$ | Price of Company's shares***     |                                  |
|---------------------------------|-----------------|---------------------------|----------------------------|---------------------------|------------------------|------------------|------------------------------------|---|---|----------------------------------|----------------------------------|
|                                 |                 |                           | Re-granted during the year | Exercised during the year | Lapsed during the year |                  |                                    |   |   | At re-grant date of options HK\$ | At exercise date of options HK\$ |
| <b>Directors</b>                |                 |                           |                            |                           |                        |                  |                                    |   |   |                                  |                                  |
| Mr. Yip Seng Mun                | 6,000,000       | (6,000,000)               | 6,000,000                  | -                         | -                      | 6,000,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Mr. Yip Heon Ping               | 6,300,000       | (6,300,000)               | 6,300,000                  | -                         | -                      | 6,300,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Mr. Yip Heon Wai                | 5,300,000       | (5,300,000)               | 5,300,000                  | -                         | -                      | 5,300,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Mr. Yip Heon Keung              | 5,300,000       | (5,300,000)               | 5,300,000                  | -                         | -                      | 5,300,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Ms. Chan Fu Kuen, Gladys        | 4,300,000       | (4,300,000)               | 4,300,000                  | -                         | -                      | 4,300,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Dr. Clement Lau                 | 1,600,000       | (1,600,000)               | 1,600,000                  | -                         | -                      | 1,600,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
| Mr. Chiu Wai Ki <sup>†</sup>    | 2,000,000       | (2,000,000)               | 2,000,000                  | -                         | (2,000,000)            | -                | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
|                                 | 30,800,000      | (30,800,000)              | 30,800,000                 | -                         | (2,000,000)            | 28,800,000       |                                    |   |   |                                  |                                  |
| <b>Other employees</b>          |                 |                           |                            |                           |                        |                  |                                    |   |   |                                  |                                  |
| In aggregate                    | 8,090,000       | (8,090,000)               | 5,095,000                  | -                         | (1,570,000)            | 3,525,000        | 22 August 2001                     | 22 August 2001 to 21 August 2011            | 0.40  | 0.40                             | N/A                              |
|                                 | 38,890,000      | (38,890,000)              | 35,895,000                 | -                         | (3,570,000)            | 32,325,000       |                                    |   |   |                                  |                                  |

<sup>†</sup> The share options held by Mr. Chiu Wai Ki lapsed on 11 March 2002, being three months following his resignation from the Company as a director on 11 December 2001.

\*

The time of acceptance of the share options was within 21 days from the offer date of the re-grant of options.

\*\*

The exercise price of the share options re-granted was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\*

The price of the Company's shares disclosed as at the date of the re-grant of share options was the Exchange's closing price on the trading day immediately prior to the date of the re-grant of share options.

Summary details of the New Scheme are also set out in note 29 to the financial statements.



**SHARE OPTION SCHEME** (Continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

**SUBSTANTIAL SHAREHOLDERS**

At 31 March 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name                                       | Number of<br>ordinary shares | Percentage<br>of holding |
|--|------------------------------|--------------------------|
| Greenford Company Limited                  | 155,931,035                  | 30.5                     |
| Century Technology Holding Limited         | 155,931,035                  | 30.5                     |
| Bakersfield Global Corporation             | 92,418,549                   | 18.1                     |
| Cititrust (Cayman) Limited (Notes 1 and 2) | 404,280,619                  | 79.1                     |

## Notes:

- (1) 404,280,619 shares were held through Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustee of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all of the units of which were held by Cititrust (Cayman) Limited as trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Heon Ping as the discretionary object for the time being.
- (2) Cititrust (Cayman) Limited is a wholly-owned subsidiary of Citibank Overseas Investment Corporation which in turn is owned by Citibank N.A.

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out under the section "Directors' interests in shares and warrants" above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.



### SPONSOR'S INTERESTS

As at 31 March 2002, DBS Asia Capital Limited ("DBS Asia"), its directors, employees or associates, did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the agreement dated 21 March 2000 entered into between the Company and DBS Asia (the "Sponsor Agreement"), DBS Asia received fees for acting as the Company's retained sponsor for the period from 1 April 2000 to 31 March 2002.

Upon the expiry of the Sponsor Agreement on 1 April 2002, DBS Asia ceased to be the Company's sponsor.

### BOARD PRACTICES AND PROCEDURES

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

### AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 7 March 2000 with written terms of reference for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the two independent non-executive directors of the Company, namely Messrs. James T. Siano and Au Shing Kwok. The Group's audited financial statements for the year ended 31 March 2002 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

### AUDITORS

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

On behalf of the board

**Yip Seng Mun**  
*Chairman*

Hong Kong, 25 June 2002



To the members

**Prosten Technology Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 40 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

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

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

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong, 25 June 2002





## Consolidated Profit and Loss Account

Year ended 31 March 2002

|  | Notes | 2002<br>HK\$'000      | 2001<br>HK\$'000 |
|--|-------|-----------------------|------------------|
| TURNOVER   | 4     | 100,679               | 186,122          |
| Cost of sales  |       | <u>(91,744)</u>       | <u>(116,261)</u> |
| Gross profit   |       | 8,935                 | 69,861           |
| Other revenue  | 4     | 4,520                 | 17,311           |
| Selling and distribution costs   |       | (25,315)              | (24,106)         |
| General and administrative expenses  |       | (59,107)              | (45,306)         |
| Other operating expenses   |       | (12,097)              | (169)            |
| Impairment of fixed assets   |       | (5,984)               | –                |
| Impairment of a long term investment                                       |       | (39,548)              | –                |
| Provision for doubtful debts   |       | <u>(36,729)</u>       | <u>(6,000)</u>   |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES                                    | 6     | (165,325)             | 11,591           |
| Finance costs  | 7     | <u>(83)</u>           | <u>(66)</u>      |
| PROFIT/(LOSS) BEFORE TAX   |       | (165,408)             | 11,525           |
| Tax  | 10    | <u>(31)</u>           | <u>2,442</u>     |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS | 11    | <u>(165,439)</u>      | <u>13,967</u>    |
| DIVIDEND   | 12    | <u>–</u>              | <u>12,781</u>    |
| EARNINGS/(LOSS) PER SHARE  | 13    |                       |                  |
| – Basic  |       | <u>(HK32.4 cents)</u> | HK2.7 cents      |
| – Diluted  |       | <u>N/A</u>            | <u>N/A</u>       |



## Consolidated Statement of Recognised Gains and Losses

Year ended 31 March 2002

|   | Note | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|---|------|------------------|------------------|
| Exchange differences arising on consolidation of overseas subsidiaries        | 30   | (34)             | 129              |
| Net gains/(losses) not recognised in the consolidated profit and loss account |      | (34)             | 129              |
| Net profit/(loss) from ordinary activities attributable to shareholders       |      | (165,439)        | 13,967           |
| Total recognised gains and losses   |      | (165,473)        | 14,096           |



# Consolidated Balance Sheet

31 March 2002

|  | Notes | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>  |       |                  |                  |
| Fixed assets   | 14    | 11,173           | 18,813           |
| Deferred development costs   | 15    | 2,175            | 5,542            |
| Intangible asset   | 16    | 44,359           | 45,889           |
| Deposits and club debenture  | 17    | 2,272            | 3,279            |
| Long term investment   | 18    | 10,372           | –                |
| Deposit paid for the proposed acquisition of<br>a long term investment |       | –                | 3,114            |
|  |       | <b>70,351</b>    | <b>76,637</b>    |
| <b>CURRENT ASSETS</b>  |       |                  |                  |
| Inventories  | 21    | 12,609           | 17,538           |
| Trade receivables  | 22    | 26,628           | 116,322          |
| Bills receivable   |       | –                | 755              |
| Prepayments, deposits and other receivables                            |       | 6,739            | 20,992           |
| Short term investments   | 23    | 7,158            | –                |
| Pledged bank deposits  | 27    | 6,814            | 2,544            |
| Cash and cash equivalents  | 24    | 127,096          | 203,643          |
|  |       | <b>187,044</b>   | <b>361,794</b>   |
| <b>CURRENT LIABILITIES</b>   |       |                  |                  |
| Trade payables   | 25    | 16,058           | 21,473           |
| Bills payable  |       | –                | 10,262           |
| Tax payable  |       | 2,197            | 2,188            |
| Accrued liabilities, deposits received and<br>other payables           |       | 7,121            | 9,373            |
| Interest-bearing borrowings, secured                                   | 26    | 1,886            | –                |
|  |       | <b>27,262</b>    | <b>43,296</b>    |
| <b>NET CURRENT ASSETS</b>  |       | <b>159,782</b>   | <b>318,498</b>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                           |       | <b>230,133</b>   | <b>395,135</b>   |
| <b>NON-CURRENT LIABILITIES</b>   |       |                  |                  |
| Interest-bearing borrowings, secured                                   | 26    | 471              | –                |
|  |       | <b>229,662</b>   | <b>395,135</b>   |
| <b>CAPITAL AND RESERVES</b>  |       |                  |                  |
| Share capital  | 29    | 51,125           | 51,125           |
| Reserves   | 30    | 178,537          | 344,010          |
|  |       | <b>229,662</b>   | <b>395,135</b>   |

Yip Seng Mun  
Chairman

Yip Heon Keung  
Director

## Consolidated Cash Flow Statement

Year ended 31 March 2002

|   | Note  | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|---|-------|------------------|------------------|
| NET CASH OUTFLOW FROM                               |       |                  |                  |
| OPERATING ACTIVITIES                                | 31(a) | <b>(40,929)</b>  | (92,962)         |
| RETURNS ON INVESTMENTS AND SERVICING                |       |                  |                  |
| OF FINANCE  |       |                  |                  |
| Interest received                                   |       | <b>4,157</b>     | 16,773           |
| Investment income received                          |       | <b>501</b>       | –                |
| Interest paid                                       |       | <b>(83)</b>      | (66)             |
| Dividend paid                                       |       | –                | (12,781)         |
|   |       | <hr/>            | <hr/>            |
| Net cash inflow from returns                        |       | <b>4,575</b>     | 3,926            |
| on investments and servicing of finance             |       | <hr/>            | <hr/>            |
| TAX   |       |                  |                  |
| Hong Kong profits tax refunded                      |       | –                | 1,950            |
| Overseas taxes paid                                 |       | <b>(22)</b>      | (319)            |
|   |       | <hr/>            | <hr/>            |
| Net tax refunded/(paid)                             |       | <b>(22)</b>      | 1,631            |
|   |       | <hr/>            | <hr/>            |
| INVESTING ACTIVITIES                                |       |                  |                  |
| Purchases of fixed assets                           |       | <b>(5,038)</b>   | (13,974)         |
| Additions of deferred development costs             |       | <b>(371)</b>     | (6,046)          |
| Purchase of an intangible asset                     |       | –                | (45,889)         |
| Advances to an independent third party              |       |                  |                  |
| for a proposed investment                           |       | –                | (15,857)         |
| Repayment of advances to an independent third party |       |                  |                  |
| for a proposed investment                           |       | <b>15,644</b>    | –                |
| Placements of bank deposits                         |       | –                | (38,930)         |
| Withdrawal of bank deposits                         |       | <b>38,930</b>    | –                |
| Deposit paid for the proposed acquisition of        |       |                  |                  |
| a long term investment                              |       | –                | (3,114)          |
| Acquisition of a long term investment               |       | <b>(41,346)</b>  | –                |
| Purchases of short term investments                 |       | <b>(7,158)</b>   | –                |
| Proceeds from disposal of fixed assets              |       | <b>11</b>        | 10               |
| Release/(pledge) of bank deposits                   |       | <b>(4,270)</b>   | 8,222            |
|   |       | <hr/>            | <hr/>            |
| Net cash outflow from investing activities          |       | <b>(3,598)</b>   | (115,578)        |
|   |       | <hr/>            | <hr/>            |
| NET CASH OUTFLOW BEFORE                             |       |                  |                  |
| FINANCING ACTIVITIES – Page 44                      |       | <b>(39,974)</b>  | (202,983)        |



## Consolidated Cash Flow Statement

Year ended 31 March 2002

|   | Note  | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|---|-------|------------------|------------------|
| NET CASH OUTFLOW BEFORE<br>FINANCING ACTIVITIES – Page 43         |       | <b>(39,974)</b>  | (202,983)        |
| FINANCING ACTIVITIES  |       |                  |                  |
| New bank loans  | 31(b) | <b>2,357</b>     | –                |
| Share issue expenses  |       | –                | (3,552)          |
| Net cash inflow/(outflow) from financing activities               |       | <b>2,357</b>     | (3,552)          |
| DECREASE IN CASH AND CASH EQUIVALENTS                             |       | <b>(37,617)</b>  | (206,535)        |
| Cash and cash equivalents at beginning of year                    |       | <b>164,713</b>   | 371,248          |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                          |       | <b>127,096</b>   | 164,713          |
| ANALYSIS OF BALANCES OF CASH AND<br>CASH EQUIVALENTS              |       |                  |                  |
| Cash and bank balances  |       | <b>17,492</b>    | 51,742           |
| Bank deposits with original maturity of<br>less than three months |       | <b>51,267</b>    | 71,536           |
| Other liquid funds  |       | <b>58,337</b>    | 41,435           |
|   |       | <b>127,096</b>   | 164,713          |



|   | Notes | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                   |       |                  |                  |
| Interests in subsidiaries                   | 20    | <u>229,671</u>   | 391,796          |
| <b>CURRENT ASSETS</b>                       |       |                  |                  |
| Prepayments, deposits and other receivables |       | 627              | 1,008            |
| Cash and bank balances                      | 24    | <u>83</u>        | 80               |
|   |       | <u>710</u>       | 1,088            |
| <b>CURRENT LIABILITIES</b>                  |       |                  |                  |
| Accrued liabilities and other payables      |       | <u>719</u>       | 800              |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>     |       |                  |                  |
|   |       | <u>(9)</u>       | 288              |
|   |       | <u>229,662</u>   | 392,084          |
| <b>CAPITAL AND RESERVES</b>                 |       |                  |                  |
| Share capital                               | 29    | 51,125           | 51,125           |
| Reserves                                    | 30    | <u>178,537</u>   | 340,959          |
|   |       | <u>229,662</u>   | 392,084          |

**Yip Seng Mun**  
*Chairman*

**Yip Heon Keung**  
*Director*



## 1. CORPORATE INFORMATION

During the year, the Group was involved in the provision of broadband data networks and Internet backbone solutions, applications software, e-commerce solutions and related IT consultancy services, and investment holding.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs and related Interpretations prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significance effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments. However, these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, as further detailed in note 32 to the financial statements.



## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

*(Continued)*

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determines whether the Group's predominant risks or returns are based on business segments or geographical segments and that they choose one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The principal impact of this SSAP is the inclusion of additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in notes 3 and 19 to the financial statements, respectively. The required new additional disclosures are included in note 19 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.





**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the re-measurement of short term investments as explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identified liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Negative goodwill** *(Continued)*

In prior years, negative goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to the Group's accounting period beginning 1 April 2001, to remain eliminated against consolidated reserves. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable negative goodwill previously credited to the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

#### **Related parties**

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

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of assets** (Continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

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

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

|                        |   |
|------------------------|---|
| Leasehold improvements | 30% or over the lease terms, whichever is shorter |
| Office equipment       | 30%   |
| Computer equipment     | 30%   |
| Furniture and fixtures | 20%   |
| Motor vehicles         | 30%   |

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

**Intangible asset**

The intangible asset represents the technology know-how over certain specific software products and operating platforms developed by a third party, and is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis over a period of three years commencing from the date when the technology know-how of the applicable software products is put into commercial use.

The unamortised balance of the intangible asset is reviewed at the end of each year and any impairment is written off to the extent that the unamortised balance is no longer likely to be recovered.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Operating leases**

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

#### **Long term investment**

The long term investment is a non-trading investment in an unlisted equity security intended to be held on a long term basis. The unlisted security is stated at cost less any impairment losses that are considered by the directors to be other than temporary. In situations where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

#### **Short term investments**

Short term investments are investments in investment funds and/or equity securities held for trading purposes and are stated at their fair values at the balance sheet date. The gains or losses arising from changes in the fair values of the investment funds and/or equity securities are credited or charged to the profit and loss account in the period in which they arise.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Deferred tax**

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

**Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from installation, system development and system design service income, when the relevant services have been rendered; and
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

**Deferred development costs**

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

Deferred development costs are stated at cost less any impairment losses and are amortised, using the straight-line method, over the expected useful lives of the underlying products subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

The unamortised balance of development costs is reviewed at the end of each year and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies

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

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

#### Pension costs

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

The Group has joined a mandatory central pension scheme (the "CP Scheme") organised by the government in the People's Republic of China excluding Hong Kong (the "PRC"), for the Group's employees in the PRC, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the CP Scheme. The employer contributions vest fully once they are made.



4. **TURNOVER AND REVENUE**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, business tax, where applicable, and services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenue is as follows:

|                   | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|-------------------|------------------|------------------|
| Turnover:         |                  |                  |
| Sale of goods     | 93,381           | 126,156          |
| Services rendered | 7,298            | 59,966           |
|                   | <u>100,679</u>   | <u>186,122</u>   |
| Other revenue:    |                  |                  |
| Interest income   | 3,734            | 17,196           |
| Investment income | 501              | –                |
| Others            | 285              | 115              |
|                   | <u>4,520</u>     | <u>17,311</u>    |
| Total revenue     | <u>105,199</u>   | <u>203,433</u>   |

5. **SEGMENT INFORMATION**

SSAP 26 was adopted during the year, as further explained in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are organised and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represent a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Provision of broadband data networks and Internet backbone solutions;
- (b) Provision of applications software; and
- (c) Provision of e-commerce solutions and related IT consultancy services.



## 5. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

## Group

|  | Provision of<br>broadband data<br>networks and Internet<br>backbone solutions |                  | Provision of<br>applications software |                  | Provision of<br>e-commerce solutions<br>and related IT<br>consultancy services |                  | Total            |                  |
|--|---|------------------|---------------------------------------|------------------|--|------------------|------------------|------------------|
|  | 2002<br>HK\$'000  | 2001<br>HK\$'000 | 2002<br>HK\$'000                      | 2001<br>HK\$'000 | 2002<br>HK\$'000   | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Segment revenue:   |   |                  |                                       |                  |  |                  |                  |                  |
| Sales to external<br>customers   | <b>95,644</b>   | 61,165           | <b>1,645</b>                          | 53,721           | <b>3,390</b>   | 71,236           | <b>100,679</b>   | 186,122          |
| Segment results  | <b>(33,276)</b>   | (25,132)         | <b>(34,959)</b>                       | 31,620           | <b>(61,916)</b>  | 8,428            | <b>(130,151)</b> | 14,916           |
| Unallocated expenses   |   |                  |                                       |                  |  |                  | <b>(39,694)</b>  | (20,636)         |
| Other revenue  |   |                  |                                       |                  |  |                  | <b>4,520</b>     | 17,311           |
| Profit/(loss) from<br>operating activities                                       |   |                  |                                       |                  |  |                  | <b>(165,325)</b> | 11,591           |
| Finance costs  |   |                  |                                       |                  |  |                  | <b>(83)</b>      | (66)             |
| Profit/(loss) before tax   |   |                  |                                       |                  |  |                  | <b>(165,408)</b> | 11,525           |
| Tax  |   |                  |                                       |                  |  |                  | <b>(31)</b>      | 2,442            |
| Net profit/(loss) from<br>ordinary activities<br>attributable<br>to shareholders |   |                  |                                       |                  |  |                  | <b>(165,439)</b> | 13,967           |





5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group (Continued)

|  | Provision of<br>broadband data<br>networks and Internet<br>backbone solutions |                  | Provision of<br>applications software |                  | Provision of<br>e-commerce solutions<br>and related IT<br>consultancy services |                  | Corporate<br>and Other |                  | Total            |                  |
|--|---|------------------|---------------------------------------|------------------|--|------------------|------------------------|------------------|------------------|------------------|
|  | 2002<br>HK\$'000  | 2001<br>HK\$'000 | 2002<br>HK\$'000                      | 2001<br>HK\$'000 | 2002<br>HK\$'000   | 2001<br>HK\$'000 | 2002<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Segment assets   | 39,501  | 56,132           | 47,243                                | 114,659          | 15,148   | 32,113           | -                      | -                | 101,892          | 202,904          |
| Unallocated assets   |   |                  |                                       |                  |  |                  | 155,503                | 235,527          | 155,503          | 235,527          |
| Total assets   |   |                  |                                       |                  |  |                  | 155,503                | 235,527          | 257,395          | 438,431          |
| Segment liabilities  | 16,209  | 31,192           | 1,085                                 | 245              | 178  | 508              | -                      | -                | 17,472           | 31,945           |
| Unallocated liabilities  |   |                  |                                       |                  |  |                  | 10,261                 | 11,351           | 10,261           | 11,351           |
| Total liabilities  |   |                  |                                       |                  |  |                  | 10,261                 | 11,351           | 27,733           | 43,296           |
| Other segment<br>information:                                    |   |                  |                                       |                  |  |                  |                        |                  |                  |                  |
| Depreciation   | 2,572   | 186              | 434                                   | 427              | 3,007  | 4,787            | 892                    | 661              | 6,905            | 6,061            |
| Amortisation   | 426   | 148              | 2,523                                 | 356              | -  | -                | -                      | -                | 2,949            | 504              |
| Impairment losses<br>recognised in<br>profit and<br>loss account | 810   | -                | 1,514                                 | -                | 45,532   | -                | -                      | -                | 47,856           | -                |
| Provision for<br>doubtful debts                                  | 7,524   | 6,000            | 26,305                                | -                | 2,900  | -                | -                      | -                | 36,729           | 6,000            |
| Bad debts written off  | -   | -                | -                                     | -                | 2,890  | -                | -                      | -                | 2,890            | -                |
| Capital expenditure  | 506   | 2,071            | -                                     | 51,424           | 60   | 4,661            | 5,383                  | 7,213            | 5,949            | 65,369           |

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.



**6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

The Group's profit/(loss) from operating activities is arrived at after charging:

|   | <b>2002</b>     | 2001     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Cost of inventories sold                                  | <b>82,336</b>   | 87,599   |
| Cost of services provided                                 | <b>9,408</b>    | 28,662   |
| Depreciation  | <b>6,905</b>    | 6,061    |
| Minimum lease payments under operating leases:            |                 |          |
| Land and buildings  | <b>6,833</b>    | 6,099    |
| Auditors' remuneration                                    | <b>660</b>      | 850      |
| Staff costs (excluding directors' remuneration (note 8)): |                 |          |
| Wages and salaries  | <b>29,414</b>   | 21,535   |
| Pension scheme contributions                              | <b>1,641</b>    | 343      |
| Amortisation of an intangible asset*                      | <b>1,530</b>    | –        |
| Research and development costs:                           |                 |          |
| Current year expenditure**                                | <b>6,552</b>    | 904      |
| Amortisation of deferred development costs*               | <b>1,419</b>    | 504      |
| Impairment of deferred development costs**                | <b>2,324</b>    | –        |
| Loss on disposal of fixed assets**                        | <b>331</b>      | 169      |
| Bad debts written off**                                   | <b>2,890</b>    | –        |
| Impairment of fixed assets                                | <b>5,984</b>    | –        |
| Impairment of a long term investment                      | <b>39,548</b>   | –        |
| Provision for doubtful debts                              | <b>36,729</b>   | 6,000    |

\* The current year's expenditure on the amortisation of deferred development costs in the amount of HK\$1,419,000 (2001: HK\$504,000), the amortisation of an intangible asset in the amount of HK\$1,530,000 (2001: Nil) and the direct staff costs in the amount of HK\$2,099,000 (2001: HK\$5,658,000) are included in "Cost of services provided" disclosed above, which is in turn included in "Cost of sales" on the face of the consolidated profit and loss account.

\*\* The current year's expenditure on research and development costs, impairment of deferred development costs, loss on disposal of fixed assets and bad debts written off are included in "Other operating expenses" on the face of the consolidated profit and loss account.



7. FINANCE COSTS

|   | Group    |          |
|---|----------|----------|
|   | 2002     | 2001     |
|   | HK\$'000 | HK\$'000 |
| Interest on bank overdrafts and bank loans wholly repayable within five years | 83       | 66       |

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

|   | 2002          | 2001     |
|---|---------------|----------|
|   | HK\$'000      | HK\$'000 |
| Fees:   |               |          |
| Executive directors                                   | –             | –        |
| Independent non-executive directors                   | 150           | –        |
| Other emoluments of executive directors:              |               |          |
| Basic salaries, other allowances and benefits in kind | 9,740         | 6,254    |
| Pension scheme contributions                          | 307           | 87       |
|   | <b>10,197</b> | 6,341    |

During the year, there were seven executive directors receiving individual emoluments of HK\$2,663,000 (2001: HK\$1,480,000), HK\$1,331,000 (2001: HK\$720,000), HK\$1,352,000 (2001: HK\$731,000), HK\$1,352,000 (2001: HK\$731,000), HK\$339,000 (2001: HK\$183,000), HK\$1,477,000 (2001: HK\$864,000) and HK\$1,533,000 (2001: HK\$1,011,000), respectively. In addition, there was one executive director who resigned during the year ended 31 March 2001 and received individual emoluments of HK\$621,000 for that year.

During the year, there was one independent non-executive director who received director's fees of HK\$150,000 (2001: Nil). No director's fees were paid to the other independent non-executive director (2001: Nil).

**8. DIRECTORS' REMUNERATION** (Continued)

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

|                               | Number of directors |      |
|-------------------------------|---------------------|------|
|                               | 2002                | 2001 |
| Nil to HK\$1,000,000          | 3                   | 8    |
| HK\$1,000,001 - HK\$1,500,000 | 4                   | 2    |
| HK\$1,500,001 - HK\$2,000,000 | 1                   | –    |
| HK\$2,500,001 - HK\$3,000,000 | 1                   | –    |

In addition to the directors' remuneration above, a total of 30,800,000 share options to subscribe for ordinary shares in the Company were granted to certain directors of the Company during the year, as detailed in the "Share option scheme" section of the Report of the Directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included five (2001: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of remaining one non-director, highest paid employee for the year ended 31 March 2001 are set out below:

|   | 2002     | 2001     |
|---|----------|----------|
|   | HK\$'000 | HK\$'000 |
| Basic salaries, other allowances and benefits in kind | –        | 960      |
| Pension contributions                                 | –        | 16       |
|   | –        | 976      |

The remuneration of the highest paid, non-director employee for the year ended 31 March 2001 fell within the nil to HK\$1,000,000 band.



**10. TAX**

|  | <b>2002</b>     | 2001     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Group:                                 |                 |          |
| Current year provision:                |                 |          |
| Hong Kong                              | –               | –        |
| Elsewhere                              | <b>31</b>       | 353      |
|  | <b>31</b>       | 353      |
| Hong Kong profits tax refunded         | –               | (1,950)  |
| Overprovision in prior years           | –               | (388)    |
| Deferred tax                           | –               | (457)    |
| Tax charge/(written back) for the year | <b>31</b>       | (2,442)  |

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company was HK\$162,422,000 (2001: net profit from ordinary activities attributable to shareholders of HK\$14,753,000).

**12. DIVIDEND**

|  | <b>2002</b>     | 2001     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Interim dividend – Nil<br>(2001: HK2.5 cents per ordinary share) | –               | 12,781   |



**13. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share for the two years ended 31 March 2002 is based on the following data:

|  | <b>2002</b>        | 2001        |
|--|--------------------|-------------|
|  | <b>HK\$'000</b>    | HK\$'000    |
| Earnings/(loss):                               |                    |             |
| Net profit/(loss) attributable to shareholders | <u>(165,439)</u>   | 13,967      |
| Shares:  |                    |             |
| Weighted average number of shares in issue     | <u>511,250,000</u> | 511,250,000 |

A diluted loss per share amount for the year ended 31 March 2002 has not been shown as the share options and warrants outstanding had an anti-dilutive effect on the basic loss per share for the year.

A diluted earnings per share amount for the year ended 31 March 2001 has not been shown as the share options and warrants outstanding had an anti-dilutive effect on the basic earnings per share for that year.



14. FIXED ASSETS

Group

|  | Leasehold<br>improvements | Office and<br>computer<br>equipment,<br>furniture<br>and fixtures | Motor<br>vehicles | Total         |
|--|---------------------------|---|-------------------|---------------|
|  | HK\$'000                  | HK\$'000  | HK\$'000          | HK\$'000      |
| Cost:  |                           |   |                   |               |
| At beginning of year   | 3,227                     | 20,738  | 580               | 24,545        |
| Additions  | 464                       | 4,357   | 757               | 5,578         |
| Disposals  | (344)                     | (219)   | –                 | (563)         |
| Exchange adjustments   | 6                         | 9   | 3                 | 18            |
| <b>At 31 March 2002</b>  | <b>3,353</b>              | <b>24,885</b>   | <b>1,340</b>      | <b>29,578</b> |
| Accumulated depreciation<br>and impairment:                                |                           |   |                   |               |
| At beginning of year   | 643                       | 4,857   | 232               | 5,732         |
| Provided during the year   | 1,156                     | 5,376   | 373               | 6,905         |
| Disposals  | (129)                     | (92)  | –                 | (221)         |
| Impairment during the year<br>recognised in the profit<br>and loss account | –                         | 5,984   | –                 | 5,984         |
| Exchange adjustments   | 1                         | 2   | 2                 | 5             |
| <b>At 31 March 2002</b>  | <b>1,671</b>              | <b>16,127</b>   | <b>607</b>        | <b>18,405</b> |
| Net book value:  |                           |   |                   |               |
| <b>At 31 March 2002</b>  | <b>1,682</b>              | <b>8,758</b>  | <b>733</b>        | <b>11,173</b> |
| At 31 March 2001   | 2,584                     | 15,881  | 348               | 18,813        |



## 15. DEFERRED DEVELOPMENT COSTS

|  | <b>Group</b> |
|--|--------------|
|  | HK\$'000     |
| Cost:  |              |
| At beginning of year   | 6,046        |
| Additions  | 371          |
| Exchange adjustments   | 5            |
|  | <u>6,422</u> |
| <b>At 31 March 2002</b>  | <b>6,422</b> |
| Accumulated amortisation and impairment:                             |              |
| At beginning of year   | 504          |
| Amortisation provided during the year                                | 1,419        |
| Impairment during the year recognised in the profit and loss account | 2,324        |
|  | <u>4,247</u> |
| <b>At 31 March 2002</b>  | <b>4,247</b> |
| Net book value:  |              |
| <b>At 31 March 2002</b>  | <b>2,175</b> |
| At 31 March 2001   | <u>5,542</u> |

## 16. INTANGIBLE ASSET

|   | <b>Group</b>  |
|---|---------------|
|   | HK\$'000      |
| Cost:   |               |
| At beginning of year and at 31 March 2002     | <u>45,889</u> |
| Accumulated amortisation:                     |               |
| Provided during the year and at 31 March 2002 | <u>1,530</u>  |
| Net book value:                               |               |
| <b>At 31 March 2002</b>                       | <b>44,359</b> |
| At 31 March 2001                              | <u>45,889</u> |

According to a valuation performed by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuers, the fair market value of the intangible asset, using a discounted estimated future cash flows model, exceeded its carrying value as at 31 March 2002.





17. DEPOSITS AND CLUB DEBENTURE

|  | Group        |              |
|--|--------------|--------------|
|  | 2002         | 2001         |
|  | HK\$'000     | HK\$'000     |
| Rental deposits                        | 1,852        | 2,319        |
| Deposits for purchases of fixed assets | –            | 540          |
| Club debenture                         | 420          | 420          |
|  | <u>2,272</u> | <u>3,279</u> |

18. LONG TERM INVESTMENT

|                                     | Group         |          |
|-------------------------------------|---------------|----------|
|                                     | 2002          | 2001     |
|                                     | HK\$'000      | HK\$'000 |
| Unlisted equity investment, at cost | 49,920        | –        |
| Provision for impairment            | (39,548)      | –        |
|                                     | <u>10,372</u> | <u>–</u> |

The unlisted equity investment represents the Group's 16% equity interest in a Sino-foreign jointly-controlled entity in the PRC (the "Investment"). The consideration for the acquisition was determined by reference to a valuation carried out by American Appraisal Hongkong Limited, an independent firm of professional valuers, on the Investment. The Sino-foreign jointly-controlled entity is involved in the high-technology industry in the PRC. In the opinion of the directors, the Group does not have any significant influence over the financial and operating policies of the Investment and accordingly, it has been carried at cost less any impairment losses.

At 31 March 2002, a provision for impairment loss of HK\$39,548,000 was set aside by the Group as the fair value of the Investment declined below the original cost according to a valuation carried out by Grant Sherman. In the opinion of the directors, such decline was not temporary in nature.

**19. NEGATIVE GOODWILL**

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements.

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of acquisitions which occurred prior to the Group's accounting period beginning 1 April 2001, to remain eliminated against consolidated reserves.

The amount of negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the Group's accounting period beginning 1 April 2001, was HK\$27,245,000 as at 1 April 2001 and 31 March 2002.

**20. INTERESTS IN SUBSIDIARIES**

|                          | <b>Company</b>   |          |
|--------------------------|------------------|----------|
|                          | <b>2002</b>      | 2001     |
|                          | <b>HK\$'000</b>  | HK\$'000 |
| Unlisted shares, at cost | <b>27,445</b>    | 27,445   |
| Due from subsidiaries    | <b>362,168</b>   | 364,351  |
|                          | <b>389,613</b>   | 391,796  |
| Provision for impairment | <b>(159,942)</b> | –        |
|                          | <b>229,671</b>   | 391,796  |

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



20. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

| Company   | Place of incorporation/<br>establishment and<br>operations | Nominal<br>value of<br>paid-up/<br>registered<br>share capital | Percentage of<br>equity interest<br>attributable<br>to the Group | Principal activities   |
|---|--|--|--|--|
| <i>Held directly:</i>                               |  |  |  |  |
| Prosten (BVI) Limited                               | British Virgin<br>Islands                                  | US\$21,025   | 100  | Investment holding   |
| <i>Held indirectly:</i>                             |  |  |  |  |
| Prosten Technology Co.<br>Limited                   | Hong Kong  | Ordinary<br>HK\$1,000,000                                      | 100  | Trading of computer<br>equipment, software<br>development, system<br>integration and system<br>development<br>consulting |
| Prolink Technology<br>Limited                       | Hong Kong  | Ordinary<br>HK\$5  | 100  | Investment holding   |
| Worldly Limited                                     | Hong Kong  | Ordinary<br>HK\$10,000   | 100  | Investment holding   |
| Worldly Computer<br>(Beijing) Co., Ltd.             | PRC  | US\$1,500,000  | 100  | Trading of computer<br>equipment, software<br>development, system<br>integration and system<br>development<br>consulting |
| Prosten Technology<br>(Shanghai) Company<br>Limited | PRC  | US\$1,500,000  | 100  | Trading of computer<br>equipment, software<br>development, system<br>integration and system<br>development<br>consulting |



## 20. INTERESTS IN SUBSIDIARIES (Continued)

| Company   | Place of incorporation/<br>establishment and<br>operations | Nominal<br>value of<br>paid-up/<br>registered<br>share capital | Percentage of<br>equity interest<br>attributable<br>to the Group | Principal activities  |
|---|--|--|--|---|
| <i>Held indirectly: (Continued)</i>                   |  |  |  |   |
| Broadband Internet<br>Company Limited                 | Hong Kong  | Ordinary<br>HK\$20   | 100  | Provision of broadband<br>Internet portal<br>hosting and transit<br>services  |
| Unison Networking<br>Services (Shanghai)<br>Co., Ltd. | PRC  | US\$500,000  | 100  | Provision of network<br>engineering,<br>maintenance,<br>management,<br>assessment services<br>and related E-business<br>consulting services |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 21. INVENTORIES

|                | Group            |                  |
|----------------|------------------|------------------|
|                | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Finished goods | 12,609           | 17,538           |

None of the inventories were carried at net realisable value as at the balance sheet date (2001: Nil).



22. TRADE RECEIVABLES

Trade receivables, which generally have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at original invoice amount, and an estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade receivables as at the balance sheet date, net of provisions, is as follows:

|                | Group            |                  |
|----------------|------------------|------------------|
|                | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| 0 – 90 days    | 7,805            | 96,612           |
| 91 – 180 days  | 7,076            | 259              |
| 181 – 365 days | 17               | 3,112            |
| Over 365 days  | 11,730           | 16,339           |
|                | <b>26,628</b>    | 116,322          |

23. SHORT TERM INVESTMENTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Investment funds outside Hong Kong, at fair value | 7,158            | –                |

24. CASH AND CASH EQUIVALENTS

|                        | Group            |                  | Company          |                  |
|------------------------|------------------|------------------|------------------|------------------|
|                        | 2002<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Cash and bank balances | 17,492           | 51,742           | 83               | 80               |
| Bank deposits          | 51,267           | 110,466          | –                | –                |
| Other liquid funds     | 58,337           | 41,435           | –                | –                |
|                        | <b>127,096</b>   | 203,643          | <b>83</b>        | 80               |

**25. TRADE PAYABLES**

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

|                | Group    |          |
|----------------|----------|----------|
|                | 2002     | 2001     |
|                | HK\$'000 | HK\$'000 |
| 0 – 90 days    | 4,521    | 11,753   |
| 91 – 180 days  | 25       | –        |
| 181 – 365 days | 1,997    | 4,323    |
| Over 365 days  | 9,515    | 5,397    |
|                | 16,058   | 21,473   |

**26. INTEREST-BEARING BORROWINGS, SECURED**

|   | Group    |          |
|---|----------|----------|
|   | 2002     | 2001     |
|   | HK\$'000 | HK\$'000 |
| Bank loans, secured                       | 2,357    | –        |
| Bank loans payable:                       |          |          |
| Within one year                           | 1,886    | –        |
| In the second year                        | 471      | –        |
|   | 2,357    | –        |
| Portion classified as current liabilities | (1,886)  | –        |
| Non-current portion                       | 471      | –        |

**27. BANKING FACILITIES**

As at 31 March 2002, the Group's banking facilities were secured by bank deposits in the aggregate amount of HK\$6,814,000 (2001: HK\$2,544,000) and corporate guarantees executed by the Company and certain subsidiaries of the Company.

At 31 March 2002, the banking facilities utilised by the Group amounted to approximately HK\$4,466,000 (2001: HK\$41,741,000).



**28. DEFERRED TAX**

The Group and the Company did not have any significant unprovided deferred tax liabilities at the balance sheet date.

The principal components of the Group's deferred tax assets not recognised were as follows:

|                                     | <b>Group</b>    |          |
|-------------------------------------|-----------------|----------|
|                                     | <b>2002</b>     | 2001     |
|                                     | <b>HK\$'000</b> | HK\$'000 |
| Tax losses carried forward          | <b>4,358</b>    | 3,208    |
| Accelerated depreciation allowances | <b>(372)</b>    | (1,802)  |
|                                     | <b>3,986</b>    | 1,406    |

**29. SHARE CAPITAL**

**Shares**

|                                       | <b>2002</b>     | 2001     |
|---------------------------------------|-----------------|----------|
|                                       | <b>HK\$'000</b> | HK\$'000 |
| Authorised:                           |                 |          |
| 2,500,000,000 shares of HK\$0.10 each | <b>250,000</b>  | 250,000  |
| Issued and fully paid:                |                 |          |
| 511,250,000 shares of HK\$0.10 each   | <b>51,125</b>   | 51,125   |



## 29. SHARE CAPITAL (Continued)

## (a) Share options

The Company operates a share option scheme which became effective for a period of 10 years commencing on the listing of the Company's shares on the GEM of the Stock Exchange on 28 March 2000 (the "Old Scheme").

The movements in the number of share options to subscribe for ordinary shares in the Company during the year under the Old Scheme were as follows:

|                            | Number of share options to subscribe for ordinary<br>shares at an exercise price per share of |          |          |          |               |
|----------------------------|---|----------|----------|----------|---------------|
|                            | HK\$0.40  | HK\$1.22 | HK\$1.43 | HK\$1.52 | Total         |
|                            | '000  | '000     | '000     | '000     | '000          |
| At beginning of year       | –   | 14,957   | 2,300    | 21,633   | 38,890        |
| Cancelled during the year  | –   | (14,957) | (2,300)  | (21,633) | (38,890)      |
| Re-granted during the year | 35,895  | –        | –        | –        | 35,895        |
| Exercised during the year  | –   | –        | –        | –        | –             |
| Lapsed during the year     | (3,570)   | –        | –        | –        | (3,570)       |
| <b>At 31 March 2002</b>    | <b>32,325</b>   | <b>–</b> | <b>–</b> | <b>–</b> | <b>32,325</b> |

At the balance sheet date, the Company had 32,325,000 share options outstanding under the Old Scheme, with an exercise period from 22 August 2001 to 21 August 2011. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 32,325,000 additional ordinary shares of HK\$0.40 each and proceeds of approximately HK\$12,930,000 before related share issue expenses.

Subsequent to the balance sheet date, an extraordinary general meeting of the Company was held on 9 April 2002 (the "EGM"). Ordinary resolutions to approve the termination of the Old Scheme and the adoption of a new share option scheme (the "New Scheme") were duly passed by the shareholders at the EGM.

Subsequent to the balance sheet date, on 22 May 2002, a total number of 20,630,000 share options were granted with an exercise price of HK\$0.26 per share. Out of the 20,630,000 options granted, 500,000 options and 20,130,000 options were granted to the directors and employees, respectively, to subscribe for shares of the Company under the New Scheme.





**29. SHARE CAPITAL** *(Continued)*

**(a) Share options** *(Continued)*

The New Scheme became effective for a period of 10 years commencing on 23 April 2002.

Further details of the Old Scheme and the New Scheme are set out under the section "Share option scheme" in the Report of the Directors on pages 35 to 37.

**(b) Warrants**

On 5 January 2001, a bonus issue of warrants (the "2004 Warrants") was made in the proportion of one warrant for every ten ordinary shares then taken up. 51,125,000 units of the 2004 Warrants were issued pursuant to the bonus issue. Each of the 2004 Warrants will entitle the registered holder to subscribe for one share of the Company at a subscription price of HK\$1.43 per share, payable in cash and subject to adjustment, at any time during the period from 9 January 2001 to 8 January 2004. Any shares falling to be issued upon the exercise of the subscription rights attaching to the 2004 Warrants rank pari passu in all respects with the existing fully paid ordinary shares on the relevant subscription date.

At the balance sheet date, the Company had 51,125,000 units of the 2004 Warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 51,125,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$73,109,000 before the related share issue expenses.



## 30. RESERVES

|  | Share<br>premium<br>account<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Retained<br>profits/<br>(accumulated<br>losses)<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--|---|-------------------|
| <b>Group</b>   |   |  |   |                   |
| At 31 March 2000   | 339,275                                 | –  | 3,420   | 342,695           |
| Net profit for the year  | –                                       | –  | 13,967  | 13,967            |
| Exchange differences arising<br>on consolidation of overseas<br>subsidiaries | –                                       | 129  | –   | 129               |
| Dividend   | –                                       | –  | (12,781)  | (12,781)          |
| At 31 March 2001 and 1 April 2001  | 339,275                                 | 129  | 4,606   | 344,010           |
| Net loss for the year  | –                                       | –  | (165,439)   | (165,439)         |
| Exchange differences arising<br>on consolidation of overseas<br>subsidiaries | –                                       | (34)   | –   | (34)              |
| <b>At 31 March 2002</b>  | <b>339,275</b>                          | <b>95</b>                                      | <b>(160,833)</b>  | <b>178,537</b>    |

|                                   | Share<br>premium<br>account<br>HK\$'000 | Retained<br>profits/<br>(accumulated<br>losses)<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------|---|---|-------------------|
| <b>Company</b>                    |   |   |                   |
| At 31 March 2000                  | 339,275                                 | (288)   | 338,987           |
| Net profit for the year           | –                                       | 14,753  | 14,753            |
| Dividend                          | –                                       | (12,781)  | (12,781)          |
| At 31 March 2001 and 1 April 2001 | 339,275                                 | 1,684   | 340,959           |
| Net loss for the year             | –                                       | (162,422)   | (162,422)         |
| At 31 March 2002                  | 339,275                                 | (160,738)   | 178,537           |



### 30. RESERVES (Continued)

- (a) The share premium account of the Company includes (i) shares issued at premium; and (ii) the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries at the date they were acquired by the Company at the time of the Group reorganisation in preparation for the listing of the Company's shares in 2000. Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.
  
- (b) The Company's reserves available for the distribution comprise the share premium account after the deduction of accumulated losses. At 31 March 2002, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$178,537,000 (2001: HK\$340,959,000) subject to the restrictions stated in note 30(a) above.



## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

|   | 2002            | 2001            |
|---|-----------------|-----------------|
|   | HK\$'000        | HK\$'000        |
| Profit/(loss) from operating activities   | (165,325)       | 11,591          |
| Interest income   | (3,734)         | (17,196)        |
| Investment income   | (501)           | –               |
| Loss on disposal of fixed assets  | 331             | 169             |
| Impairment of fixed assets  | 5,984           | –               |
| Impairment of a long term investment  | 39,548          | –               |
| Amortisation of deferred development costs  | 1,419           | 504             |
| Impairment of deferred development costs  | 2,324           | –               |
| Amortisation of an intangible asset   | 1,530           | –               |
| Provision for doubtful debts  | 36,729          | 6,000           |
| Depreciation  | 6,905           | 6,061           |
| Decrease/(increase) in deposits and club debenture                                  | 467             | (2,739)         |
| Decrease/(increase) in inventories  | 4,929           | (14,893)        |
| Decrease/(increase) in trade receivables  | 47,505          | (61,545)        |
| Decrease in bills receivable  | 755             | 3,074           |
| Increase in prepayments, deposits and other<br>receivables                          | (1,814)         | (738)           |
| Decrease in trade payables  | (5,415)         | (20,628)        |
| Decrease in bills payable   | (10,262)        | (6,473)         |
| Increase/(decrease) in accrued liabilities, deposits<br>received and other payables | (2,252)         | 3,727           |
| Exchange differences arising on consolidation<br>of overseas subsidiaries           | (52)            | 124             |
|   | <hr/>           | <hr/>           |
| Net cash outflow from operating activities  | <b>(40,929)</b> | <b>(92,962)</b> |



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the years

|                                    | Interest-bearing borrowings, secured<br>HK\$'000 |
|------------------------------------|--|
| At 31 March 2000 and 31 March 2001 | –  |
| Cash inflow from financing         | <u>2,357</u>                                     |
| <b>At 31 March 2002</b>            | <b><u>2,357</u></b>                              |

(c) Major non-cash transaction

Part of the consideration of the acquisition of the long term investment, in the amount of HK\$5,460,000, was discharged through settlement of the amount due from a trade debtor of the Group.

32. COMMITMENTS

(i) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | Group               |                                |
|---|---------------------|--------------------------------|
|   | 2002<br>HK\$'000    | 2001<br>HK\$'000<br>(Restated) |
| Within one year                         | 7,020               | 6,612                          |
| In the second to fifth years, inclusive | <u>2,274</u>        | <u>6,421</u>                   |
|   | <b><u>9,294</u></b> | <b>13,033</b>                  |



**32. COMMITMENTS** (Continued)**(ii) Capital commitments contracted for**

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2002</b>     | 2001     |
|  | <b>HK\$'000</b> | HK\$'000 |
| Proposed acquisition of 16% equity interest<br>in a Sino-foreign jointly-controlled entity<br>in the PRC | –               | 42,045   |
| Acquisition of fixed assets  | <b>111</b>      | 1,687    |
| Investment in a subsidiary in the PRC  | –               | 3,893    |
|  | <b>111</b>      | 47,625   |

- (iii)** At the balance sheet date, the Group had outstanding commitments to provide funding amounting to HK\$1,311,000 (2001: HK\$1,347,000) for certain research and development projects undertaken by an independent third party in respect of the Group's products.

The Company had no commitments at the balance sheet date.

**33. CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given corporate guarantees in favour of certain banks to the extent of HK\$99,214,000 (2001: HK\$70,810,000) in respect of banking facilities granted to certain subsidiaries of the Company.

As at 31 March 2002, the bank facilities granted to the subsidiaries subject to these guarantees given to the banks by the Company were utilised to the extent of approximately HK\$4,466,000 (2001: HK\$41,741,000).

**34. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, a subsidiary of the Company incurred a capital commitment to increase its capital contribution to a wholly-owned subsidiary in the PRC to the extent of HK\$15,600,000. The above capital commitment has been authorised by the board of directors of the subsidiary.



### 35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 June 2002.



**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the members of Prosten Technology Holdings Limited (the “Company”) will be held at Unit 906-910, 9/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Thursday, 25 July 2002 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and of the auditors for the year ended 31 March 2002;
2. To re-elect directors and to authorise the board of directors (“Board”) to fix the directors’ remuneration;
3. To re-appoint auditors and to authorise the Board to fix their remuneration;
4. As special business to consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

**“THAT**

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase ordinary shares and 2004 Warrants in the capital of the Company on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong (“Securities and Futures Commission”) and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Securities and Futures Commission and the Stock Exchange or any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares of the Company to be purchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution, and the subscription rights attached to 2004 Warrants to be purchased pursuant to such approval during the Relevant Period shall not exceed 10 per cent. of the total subscription rights attached to 2004 Warrants outstanding on such date, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meetings; or
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Cayman Islands to be held.”;





5. As special business to consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

**“THAT**

- (a) subject to the following provisions of this Resolution and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders of the Company or any class thereof on a fixed record date in proportion to their then holdings of shares or any class thereof (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); or (ii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to eligible participants thereunder or rights to acquire shares in the capital of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company in force from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meetings; or
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Cayman Islands to be held.”;



6. As special business to consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

**“THAT** conditional upon Resolution 5 above being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with shares and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company since the granting of a general mandate to the directors of the Company to exercise the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.”;

7. As special business to consider and, if thought fit, pass the following resolution as a Special Resolution:

**“THAT** Articles 68, 69, 79 and 89 of the Company’s Articles of Association be and is hereby altered in the following manner:

- (a) by deleting *“and entitled to vote”* appearing in the third line of Article 68;
- (b) by deleting *“and entitled to vote”* appearing in the tenth line of Article 69;
- (c) by deleting *“or by proxy”* appearing in the fourth and fifth line of Article 79;
- (d) by adding *“, on a poll,”* immediately following *“a proxy to attend and”* appearing in the fourth line of Article 89; and

Article 85 of the Company’s Articles of Association be deleted and substitute thereof the following:

85. Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and, on a poll, vote in his stead. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a shareholder of the Company. Without prejudice to Article 92(B), on a show of hands, votes shall be given personally (or, in the case of a shareholder being a corporation, by its duly authorised representative). On a poll, votes may be given either personally (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. Save and except that a proxy shall only be entitled to vote on a poll but not on a show of hands, a proxy shall be entitled to exercise the same powers on behalf of a shareholder who is an individual and for whom he acts as proxy as such shareholder could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a shareholder which is a corporation and for which he acts as proxy as such shareholder could exercise if it were a individual shareholder.”

By Order of the Board  
**Yip Heon Keung**  
Director

Hong Kong, 28 June 2002



## Notice of Annual General Meeting

### Notes:

- (a) The Register of Members of the Company will be closed from Tuesday, 23 July, 2002 to Thursday, 25 July, 2002, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending the Meeting convened by the above notice, all transfers accompanied by the relevant share certificates and transfer forms and in case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Monday, 22 July, 2002.
- (b) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 48 hours before the time fixed for holding the Meeting.
- (d) Explanatory statements setting out further information regarding Resolutions 4 to 6 above will be despatched to members of the Company and for information only, warrant holders together with the 2002 Annual Report.

