



# Riverhill

Holdings Limited  
山河控股有限公司\*

(incorporated in the Cayman Islands with limited liability)

*20 02 Annual Report*

\*For identification only

# Mission

*To strive to become one of the most preferred technological service providers in bringing Digital Earth to reality.*

Riverhill Holdings Limited > Annual Report 2002

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

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

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

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

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

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



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## > corporate information

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Hong Jun Yan  
Prof. Zhou Qi Ming

### HONORARY CHAIRMAN

Prof. He Xiao Feng

### QUALIFIED ACCOUNTANT

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

### COMPANY SECRETARY

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

### AUTHORISED REPRESENTATIVES

Mr. Liu Hao  
Mr. Yick Chong San

### AUDIT COMMITTEE

Prof. Hong Jun Yan  
Prof. Zhou Qi Ming

### AUDITORS

Ernst & Young  
*Certified Public Accountants*

### LEGAL ADVISOR ON HONG KONG LAW

Fairbairn Catley Low & Kong

### LEGAL ADVISOR ON PRC LAW

C & I Partners

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

### SPONSOR

Anglo Chinese Corporate Finance, Limited

### REGISTERED OFFICE

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

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### PRINCIPAL BANKERS

Bank of East Asia  
Standard Chartered Bank  
Wing Hang Bank, Ltd.  
Liu Chong Hing Bank Ltd.  
Bank of China (Hong Kong)

### WEB SITE

[www.river-hill.com](http://www.river-hill.com)

### E-MAIL

[co@river-hill.com](mailto:co@river-hill.com)

## > notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Riverhill Holdings Limited (the “Company”) will be held at 11:00 a.m. on 8th November 2002 at Room 101, 1/F, St. George’s Building, 2 Ice House Street, Central, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors of the Company (the “Directors”) and auditors for the year ended 30th June 2002;
2. to re-elect Directors and to authorise the board of Directors to fix the Directors’ remuneration;
3. to re-appoint auditors and to authorise the board of Directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions (the “Resolution(s)”) as ordinary resolutions:

4. “THAT:
  - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) (the “GEM Listing Rules”) operated by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a “Share”) of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
  - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
    - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
    - (bb) (if the Directors are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

## > notice of annual general meeting

(d) for the purposes of this Resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (Law 3 of 1961, as consolidated and revised) of Cayman Islands (the “**Companies Law**”), or any other applicable law of Cayman Islands to be held; and
- (iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution;

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

5. “THAT:

- (a) the exercise by the Directors during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, “**Relevant Period**” means the period from the date of the passing of this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law, or any other applicable law of Cayman Islands to be held; and

## > notice of annual general meeting

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.”

6. “THAT the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.”

By order of the board of Directors  
**Riverhill Holdings Limited**  
**Yick Chong San**  
*Director*

Hong Kong, 8th October 2002

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

*Registered and Principal Place of  
Business in Hong Kong:*  
Room 1503  
Crocodile House II  
50–55 Connaught Road Central  
Hong Kong

### Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Tengis Limited at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.
3. In relation to proposed Resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.
4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out in the accompanying document.

**< a completely  
integrated solution  
based on cutting edge  
TECHNOLOGY >**



Dear Shareholders,

It has been over a year after the listing of Riverhill Holdings Limited's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Directors have to admit that Riverhill did not soar as what we have expected. However, the Group have managed to enhance our business and technological competence, intensify our management effectiveness, make progress in certain business areas and become one of the leading forces in the geographic information industry.

"Geographic information industry will become one of the pillars of the information technology industry." One of the major technological officers in the PRC foretold this development trend, the path of development of the GIS industry is nevertheless a rocky one: development of the structure of the industry, its technology and services has not reached a mature level, the market has not been sufficiently exploited, the existence of low quality participants and their lacking of discipline, particularly the practice of cut throat competition, causing problems such as shrinking profit margin that limits the healthy growth of the market. Riverhill vowed to maintain its good reputation and high technological standard, and become one of the prime movers for the sustainable growth of the industry.



## > chairman's statement

Riverhill's principle is to combine trading, industry, technology and services to reach people's daily life:

**Trading:** Riverhill is the distributor or reseller of several internationally renowned companies, including Intergraph, NTT, Leica, etc. The Group have been maintaining a good working relationship with these companies. This co-operation provides contribution to the Group and allows us to follow the latest development trend of the industry and its technology.

**Industry:** One of our associate companies, Cityonmap Technology Limited launched its pioneering product, a personal computer with advanced navigation features, in February 2002. The market response is encouraging and the products have been accredited by government authorities. Riverhill will intensify the co-operation with Cityonmap to develop products for potential clientele in conjunction to the project of "Wireless application of Spatial Information" under the Hi-Tech Research and Development Program of China (the "863 Program") commissioned by the Ministry of Science and Technology, the PRC. The directors will endeavor to make these products reach every walk of life and serve a wide spectrum of industries.

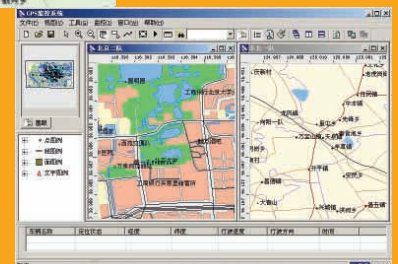
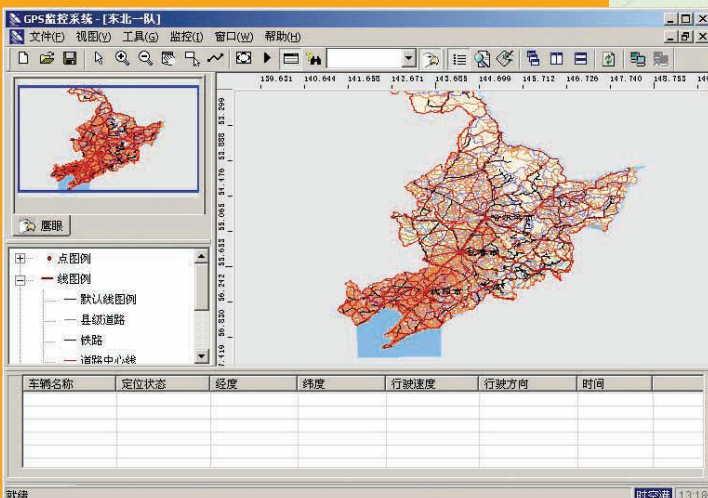
**Technology:** Riverhill, has jointly with Peking University, won the bidding of various projects under the 863 Program, and was recognized as the major participants in the research and development, and commercialization of the wireless application of

geographic information system and the application of GIS in the logistic system of railway. The directors believe that Riverhill has accumulated substantial technological power and this may provide tremendous growth opportunities to the Group in the future.

**Services:** Technology serves people. The public geographic information services of Riverhill has been expanded to cover five cities. This business segment will develop into a systematic mode with standard services, data structure and brand name. The Group have tested this business model and obtained satisfactory results. In addition, through the development of this business, the Group effectively set up a system for the establishment and maintenance of a substantial part of major geographic data.

Shallow water does not provide sufficient buoyancy for the flagship of an industry. We believe that Riverhill is accumulating resources and making progress to become a leader. Thanks to our fellow employees for their hard work. I would also like to express our gratitude to our shareholders for their patience and support. The directors believe that, with the continuous development and maturation of the geographic information industry, and the realization of the concept of digital city in the mainland, Riverhill will become one of the leaders in the GIS industry. A little crouch may provide the force for a leap, and stride Riverhill will towards success.

## TECHNOLOGY



> business review



**Financial Overview**

For the year ended 30th June 2002, revenue derived from the software and hardware distribution business decreased by 80% to approximately HK\$1,513,424 (2001: HK\$7,609,569), representing approximately 34% of the Group's total turnover for the relevant financial period due to ineffective execution of marketing plan and activities. Profit margin improved to 37% (2001: 13%). In order to address the issue of slow sales in this segment, the Group has stepped up its marketing activities covering major cities in the PRC in August 2002. We believe that the marketing efforts would be paid off as recognized sales and concluded sales contracts in this business segment in the period from July to September 2002 amounted to approximately HK\$2.4 million and the management envisages a better picture in the coming months. The Group was also appointed the reseller of another internationally renowned company, Trimble Navigation Limited for the sales and marketing of hardware for GPS and GIS. We believe that the inclusion of this company's products in the Group's product portfolio will enhance the Group's ability in providing total solutions to its customers.

Total operating costs increased as a result of an increase in overheads following the expansion of the

" our people,  
**OUR DRIVING FORCE** "



Mr. Wang Guo Wei

Mr. Yick Chong San

Prof. Hong Jun Yan

Prof. He Xiao Feng

Mr. Liu Hao

Prof. Zhou Qi Ming

## > business review

Group's sales network in Shenzhen, Wuhan, Xi'an, Shanghai, Changsha and Jingzhou. The Group recorded a segmental loss in respect of its software and hardware distribution business of approximately HK\$2,215,716 during this financial year. The Group has implemented measures, including further rationalization of the corporate and business structures with a view to improving profitability. Further actions, including tightening cost control, will be taken to ensure effective allocation of resources to ensure the long term development of the Group. Also the cooperation with Peking University in winning various projects under the 863 Program may allow the Group to obtain certain administrative and human resources from the university and thus reduce the expenditure of the Group. The Directors believe that the subsidies received under the 863 Program can be utilized to share the Group's expenditure in research and development and other back up functions.

During the relevant financial period, revenue derived from the Group's GIS and GPS related and internet related services business decreased to approximately HK\$2,904,860 (2001:HK\$6,619,259) due to late completion and late confirmation of certain projects. The Group recorded a loss of HK\$14,731,246 (2001: HK\$1,340,626) for this division during this financial year and was mainly attributable to an increase in overheads and

headcount. The Company is currently engaged in a few projects including the establishment of a GPS monitoring center for a transportation company, the design and system integration of a railway geographic information system for the Ministry of Railway and the surveying of the landmarks of the major cities in China for a map publishing company. The directors believed that completion of these projects should improve performance of this division in the following financial year.

During the year ended 30th June 2002, the Group recorded other income of approximately HK\$1,903,735 (2001: HK\$1,739,119).

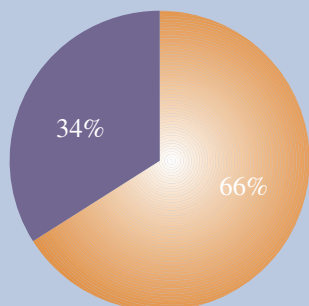
As of 30th June 2002, the Group has a cash balance of approximately HK\$8,075,149 placed in interest-bearing deposits in banks in Hong Kong and the PRC. We believe that the cash flow position and financial strength of the Group will be improved through further execution of our business and investment plans.

### Discussion on auditors' qualifications

The Directors would like to also draw the attention of our shareholders regarding the qualified opinion of our auditors in their auditors report. In respect of the pledge of a cash deposit of HK\$10,000,000 for the guarantee in favor of a customer of the Group

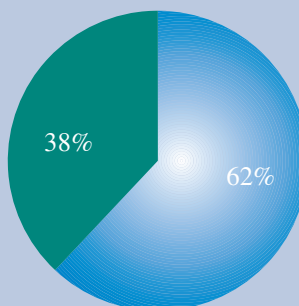
2002

### turnover by activity



HK\$4,418,284

### turnover by geographical area



HK\$4,418,284

## > business review

(the “Customer”), the directors confirmed that the directors have reviewed the audited accounts of the major subsidiary of the Customer and a due diligence report on the Customer before the directors made the decision to grant the guarantee in favor of the Customer. The guarantee is provided to the Customer mainly for its investment in new trucks. The Group is engaged in the establishment of a GPS monitoring center for the Customer and the Customer is one of the founders of a proposed information technology platform for the logistic system in North Eastern China (the “Platform”). The directors believe that the provision of this financial assistance to the Customer will help secure the Group’s status as the major technology provider of the Platform. In June 2002, the Group has received a letter from the major subsidiary of the Customer indicating their intention to appoint the Group as the sole technology provider for the Platform. In addition, the Directors have coordinated with the major shareholder of the Customer for the release of the pledge on our deposit and the progress is satisfactory. Therefore, the Directors believe that the pledge of the HK\$10,000,000 deposit will be released no later than the end of 2002.

In respect of the software that has an aggregate cost and carrying value of HK\$2.35 million and HK\$2.21 million respectively. The Directors confirmed that

the software was acquired for the bidding of various projects, including a project under the 863 Program and the execution of the sub-projects under a railway geographic information system project. It is encouraging that in September 2002, the Group received a notice from the Ministry of Science and Technology, the PRC, that our bidding for the project under the 863 Program was successful although the amount of government grant is not certain yet. In our bidding documents, the Group applied for a government subsidy of Rmb2.5 million. The Directors estimate that the Group will receive approximately Rmb2 to 2.5 million and will incur a further of approximately Rmb0.5 million in the project. The rest of the approximately Rmb1.5 to 2 million will be utilized to cover the acquisition cost of the software and share the research and development, administrative and management expenditures of the Group. Also, the Group is engaged in the design and development of the GIS platform for the railway system. The Group won the bidding in August last year and entered into a framework agreement with the Ministry of Railway, the PRC (the “Ministry”). The execution of the project started this year. The Group has entered into one contract with the Ministry with a contract sum of approximately HK\$168,000. The Board envisages that the total contract sums from these sub-projects under the framework agreement would be around HK\$1 million, with a contribution of approximately



## > business review

HK\$500,000. The Directors believe that the above should support the sufficient future economic benefit inflow to recover the acquisition cost of the software pursuant to SSAP 31, and the directors do not agree that only concluded contracts are considered in the ascertainment of future economic benefit.

### **Business review**

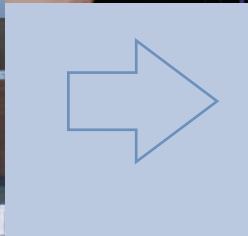
#### *Software and hardware distribution*

During the year ended 30th June 2002, the Group has successfully expanded its sales network to Shenzhen, Wuhan, Xi'an, Changsha, Jingzhou and Shanghai. This sales network provides access to potential customers in Southern, Central and Eastern China. The Group has endeavored to penetrate other industries such as environmental protection, railway and transportation, oil exploitation and other. To achieve this end, marketing efforts have been dedicated to building customer awareness and brand image for the Group in the long run. We believe that the Group's investment in marketing activities have already started to pay off as the Group has concluded sales contracts in the amount of approximately HK\$1,749,000 for its software and hardware distribution business in the month of September 2002. The aggregate amount of recognized sales and

concluded sales orders amounted to approximately HK\$2.4 million for the period from July to September 2002, being 158% of the total turnover in this segment for the twelve months ended 30th June 2002.

#### *Public geographic information services*

During the financial year ended 30th June 2002, the Group has invested in four companies in Xi'an, Wuhan, Changsha and Jingzhou respectively to develop a network for the provision of public geographic information services. These four companies have received approval from local authorities to establish and operate GIS kiosks in their cities respectively. The Group has also entered into a co-operation agreement with the Inquiry Service Center of the Beijing Tourism Administration for the establishment and operation of touch-screen GIS terminals in the hotels and major tourist attractions in Beijing. The Group is also in co-operation with a related company of a public bus company of Beijing for the provision of GIS terminals at the bus stops in Beijing. As of September 2002, the Group has set up a total of 45 terminals in various locations in Beijing, Wuhan, Changsha and Xi'an. Revenue was derived from fees received from companies which have their company information posted on these GIS terminals. It is encouraging that the three companies have been



## > business review

receiving positive feedback from the business arena, particularly in Xi'an. The directors envisage that, with the support of the Beijing Tourism Administration, the Group can rapidly increase the coverage of its GIS terminals in Beijing and then expand its influence to other cities in China.

### *Geographic information system and global positioning system*

In August 2001, the Group successfully bid for the contract for the design and development of the railway geographic information platform of the Ministry of Railway, China. Also, in December 2001, the Group won the project of building a global positioning system monitoring center for a transportation company that has over 100 trucks running extensively in Northern China. Also, the Group is engaged in another project, namely the three-dimensional surveying for the landmarks of the major cities in China for a map publishing company. The successful completion of these projects will enable the Group to enter the fields of transportation and surveying. Also, the Directors believe that the Group's success in winning relevant projects under the 863 Program may be considered a recognition of the technical competence of the Group and thus enhance the image of the Group in the market and induce new businesses, as the Group is targeting on certain projects, including those related to Olympics 2008.

### *Research and development*

The Company has, jointly with Peking University, won the project "Wireless Applications for Spatial Information" under the 863 Program commissioned by the Ministry of Science and Technology, the PRC. Under the Project, Peking University and the Company will receive a total subsidy of approximately Rmb12,000,000 from the Ministry in a period of three to five years subject to the progress of the research and commercialization of the research results. The Group received the first batch of subsidy of Rmb500,000 in April 2002. The directors are confident that additional funds will be received so long as the Company continues to make

steady progress in the project. These proceeds from the 863 Program provides additional funds for the Group to support its research and development activities. In September 2002, the Group won another project, namely "The Research in the Application of 3S in the Logistic System in Railway", under the 863 Program. Funds will also be appropriated into the Group to support its research and development activities in the area covered in the project.

### **Acquisitions and disposals of subsidiaries and affiliated companies**

During the year ended 30th June 2002, the Group has expanded its marketing network through investments in four companies in Wuhan, Xi'an, Changsha and Jingzhou, respectively. All these four companies have obtained the approval from local authorities to establish and operate touch-screen GIS terminals on the streets of their respective cities, and they also assist in the marketing activities of the Group for the software and hardware distribution and system integration businesses. As of 15th September 2002, the Group and its associated company have established a total of 45 touch-screen terminals in Beijing, Wuhan, Xi'an and Changsha.

The Group also acquired a 35% interest in Beijing Cityonmap Technology Co. Limited ("Cityonmap"). In January 2002, Cityonmap, teaming up with Beijing Hi-Tech Wealth Co. Ltd., one of the biggest PDA manufacturers and marketers in China, launched its first product: a personal computer with advanced navigation features. The user friendly gadget has been formally approved and received positive comments from the government officials, and academic and technical experts. In July 2002, Cityonmap was handpicked by the Beijing Economic Committee as one of the participants in the "Beijing Major Innovative Industrial Project 2002" and will receive a subsidy of Rmb500,000 from the Committee to support its research and development activities. Also, the National Economic Committee has accredited the product of Cityonmap, i.e. the personal computer with

## > business review

advanced navigation features, as one of the “National New Products 2002”. As of September 2002, the first batch of approximately 500 pieces of this navigation personal computers, which was aimed to test the market, were sold out and over 95% of the sales proceeds have been received. The second generation of this gadget is scheduled to be launched in October 2002 to catch the consumption high season around festivals like Christmas, New Year and Chinese New Year.

### **Investments**

The Group made no material investment since 30th June 2001.

### **Future plans for material investments and capital assets**

The Group is still in negotiation with the property developer in Beijing with a view to forming a joint venture for the provision of broad band access and related network services to residents in the estates constructed or to be constructed by the property developer. In addition, the Group is negotiating with a company and the relevant government authorities in Guangxi province to invest in the establishment of network infrastructure and the realization of a “Digital Guangxi” which involve significant GIS elements. The investment, if concluded, will provide the necessary business presence of the Group in Guangxi, and certain leverage in bidding for projects in the province. Also, the management is closely monitoring the performance of Cityonmap, the Group may consider increasing its stake in Cityonmap provided that Cityonmap continues to make steady progress in its business performance. It aims to better consolidate the technological competence and marketing resources of the Group and Cityonmap.

The Group has adjusted its strategy for the expansion of its sales network. Instead of setting up their own sales offices, whose capital expenditure requirement is greater, the Group has

modified its marketing policy such that they will invest in associated companies with existing marketing capabilities in cities where the Group intends to establish sales networks.

### **Working capital**

As at 30th June 2002, the net current assets of the Group amounted to approximately HK\$22,303,482. The current assets comprised cash and cash equivalents of approximately HK\$8,075,149, and inventories, debtors, deposits and other receivables of approximately HK\$19,794,066. The Group’s cash and cash equivalents of HK\$8,075,149, comprised of approximately HK\$6,136,842 and RMB2,073,988, are placed in interest bearing deposits. The current liabilities of the Group comprised of creditors, other payables and accruals, and other current liabilities of approximately HK\$5,565,733.

### **Liquidity and financial resources**

During the period under review, the Group has fully repaid approximately HK\$13,591,000 of shareholder’s loan. The Group has no other loans and does not intend to incur any borrowings to finance its current capital expenditure plan.

The gearing ratio of the Group, based on total liabilities to shareholder’s equity, was 0.12 (30th June 2001: 0.30) as at 30th June 2002.

On 29th January 2002, the Group has pledged a cash deposit of HK\$10,000,000 against a bank loan granted by Bank of East Asia Limited to a business partner of the Group, Well Pacific Investments Limited (“Well Pacific”). The term of the bank loan is one year. The Group is engaged in a project for the establishment of a GPS monitoring center for Well Pacific. The Group believes that the successful completion of the project and the provision of the performance bond can secure the Group’s position as the sole technology provider for the Information Technology Platform for the Logistic System in North Eastern China, which was founded by Well

## > business review

Pacific and other entities, including certain government bodies. The Directors believe that the pledge will be released the latest, by December 2002. Save as the above, the Group did not have any outstanding charges on Group assets as at 30th June 2002 (2001: nil).

### **Capital structure**

During the year ended 30th June 2002, there was no change in the Company's share capital. As at 30th June 2002, the Group's operations were financed mainly by shareholder's equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources.

### **Hedging policy**

The Group primarily focuses on the PRC market, and revenue normally is denominated in the Renminbi. The Group believes that the Renminbi will not be devalued in the near future and, therefore no hedging measures have been taken for the present.

### **Contingent liabilities**

On 29th January 2002, the Group has pledged a cash deposit of HK\$10,000,000 against a bank loan granted by the Bank of East Asia to a business partner of the Group, Well Pacific Investments Limited. The term of the bank loan is one year. Provided that Well Pacific fails to repay the loan, the Group's HK\$10,000,000 of deposit will be foreclosed by the Bank of East Asia.

### **Staff**

As at 30th June 2002, there were 135 employees of the Group (2001: 84). The remuneration of the Group amounted to approximately HK\$7,493,222 for the year ended 30th June 2002 (2001: HK\$4,392,597). The increase in salary expenses was mainly attributable to salary increment and an increase in the total number of staff as compared with the financial year ended 30th June 2002. The Group remunerated its staff based on their qualification, performance and the prevailing labour market condition.

### **Share Option Scheme**

The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme on 14th May 2001. Details of the two share options schemes are set out in the section headed "Share Option Schemes" in the Prospectus of the Company dated 18th May 2001 (the "Prospectus"). As at 14th May 2001, the Company had granted 40,000,000 options under the Pre-IPO Share Option Scheme, of which three executive Directors and two independent non-executive Directors were granted options to subscribe for an aggregate of 16,480,000 shares at an exercise price of HK\$0.60 each. For the year ended 30th June 2002, no option has been granted under the Share Option Scheme.





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## > comparison of business objectives with actual business progress

### Modification to the Use of Proceeds

Following the listing of the Company's shares on GEM on 1st June 2001, and up to 30th June 2002, the Group has utilized approximately HK\$39 million of the net proceeds of the Share Offer. Approximately HK\$2.0 million was spent on geographic expansion and marketing, and another HK\$3.4 million was spent on research and development. This differs from the intended use of the net proceeds of the Share Offer earmarked for the period from 11th May 2001, being the latest practicable date for ascertaining certain information in the Prospectus, and up to 30th June 2002 (the "Relevant Period") as stated in the prospectus.

As stated in the Prospectus of the Company, the Group plans to use a total of HK\$25.9 million of the net proceeds of the Share Offer during the Relevant Period, and particularly (i) HK\$2.4 million for geographic expansion and marketing, (ii) HK\$4.0 million for research and development, (iii) HK\$12.5 million for setting up joint ventures, and (iv) HK\$7.0 million for investments in research and data centres.

The prolonged negotiation relating to various joint venture investments has resulted in a delay in the execution of the Group's investment plan. The Group is currently in negotiation with a property developer in Beijing in finalizing the terms for the formation of a joint venture to provide services, including broad band access to intranet and the Internet, video on demand, intelligent security, etc.. In this regard, the Group has placed a deposit of HK\$2.0 million to an independent network provider, Digital Nunet Exchange Limited, to secure broad band availability in Beijing. This facility will be used by the newly formed joint venture and thus not a direct expense of the Group.

The Group invested HK\$5.2 million to acquire a 35% stake in a research and technological venture, Cityonmap which has launched its first product, a PDA with advanced navigation features, in January 2002. The Group's research and development team and Cityonmap are working closely to explore business opportunities in wireless GIS and location based services. Since Cityonmap has also invested in a company in Shanghai that is engaged in the design and establishment of intelligent transport system, the Group is working through this Shanghai outlet to reach potential customers in Eastern China. The Group has also spent an aggregate of approximately HK\$2.6 million to acquire the stakes in four companies in Xi'an, Wuhan, Changsha and Jingzhou to expand the public geographic service and the marketing networks.

The Group has also repaid approximately HK\$13.6 million shareholder's loan during the financial year. The unused proceeds, amounting to approximately HK\$18 million is placed in interest bearing deposits with banks, with HK\$10 million pledged in favor of an overdraft facilities provided to a customer by a bank in Hong Kong.

## > comparison of business objectives with actual business progress

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

### Actual business progress for the Relevant Period

#### **BUSINESS DEVELOPMENT**

- To increase the market share of the Group by seeking new projects through the promotion of the services provided by the Group via the new sales offices set up in Shanghai, Guangzhou, Chongqing, Xinjiang, Xian, Wuhan and Harbin
- To launch the upgraded version of CyberTown
- To continue the exploration of new opportunities in areas where the Group establishes sales offices by the promotion of the services provided by the Group and bidding for new projects there

The Group has expanded its marketing network through its investments in the two companies in Wuhan and Xian, respectively. The Group also works through an associated company of CityOnMap in Shanghai to bolster its marketing activities. The company has no plan to open new sales office in the near future.

The upgraded version of Cyber Town has been launched in mid 2002.

The Group has adjusted its strategy for expanding its sales network to meet with the development of our public geographic information services. The Group has invested in four companies in Xi'an, Wuhan, Changsha and Jingzhou. The company has no plan to open new sales office in the near future.

#### **RESEARCH AND DEVELOPMENT**

- To start the upgrading of CyberTown
- To set up the upgrade plans for CyberCommunity
- To set up development plans for the improvement of traditional data mining technology using data visualization technology
- To set out the development plans of large scale browsing for CyberHouse
- To start the upgrading of CyberCommunity
- To start the development of new data mining software

The upgrading has been completed in early 2002.

The upgrading plan has been completed and the upgrading is still in progress as of September 2002.

The development plan has been completed and the improvement is still in progress as of September 2002.

The development plans have been formulated.

The upgrading is still in progress and scheduled to complete by the end of 2002.

A demand analysis has been completed and the development work will start after the potential customers and their demands have been identified.

## > comparison of business objectives with actual business progress

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

### Actual business progress for the Relevant Period

#### MARKETING

- To supply information on the Group's applications and solution to customers according to their needs identified in the customer database
- To participate in trade fairs nationwide and to seek potential local agents for the Group
- To package products for specific needs of various industries
- To set up the second batch of sales offices in Xiamen, Shenzhen, Changsha, Kunming and Guilin
- To advertise the Group's products and applications in 20 selected cities in Mainland China

The Group has been actively soliciting potential customers in different fields, including environment protection, oil exploitation and refinery, railway and transportation.

The Group has been participating in trade fairs including "Railway GIS Technological Forum and Exhibition", "Network and ITS Development Forum" and "National Forestry Information System Conference". The Group has also appointed four more local agents to expand its distribution network.

The Group has been actively customizing its products to fit the needs of its customers in different fields. Therefore, the Group is able to win the biddings in respect of the design and development of the railway geographic information system and the establishment of a global positioning system monitoring center.

The Group has set up its sales office in Shenzhen and also acquired some stake in a company in Changsha to support its sales activities. The Group has no plan to set up new offices in other cities. The marketing work in these cities is covered by the Group's marketing staff in Beijing, our Shenzhen branch and associate companies.

The Group has advertised its products on television and newspaper in various cities in China.

By Order of the Board  
Riverhill Holdings Limited  
Wang Guo Wei  
Director

Beijing, 8th October 2002

## > profiles of directors and senior management

### DIRECTORS

#### Executive Directors

**Mr. Liu Hao** (劉浩), *M.Eng., B.Sc.*, aged 33, is one of the founders of the Group and the Chief Executive Officer of the Company. Mr. Liu is an associate professor and a doctorate candidate of the Institute of Remote Sensing Applications, the Chinese Academy of Science. He has extensive experience and knowledge in theories and applications of technology in GIS, GPS and RS. Mr. Liu is responsible for the Group's strategic planning, formulation of corporate policies, research and development, and business development. Mr. Liu joined the Group on 12th May 1999.

**Mr. Wang Guo Wei** (王國偉), *M.Econ., B.Sc.*, aged 34, is one of the founders of the Group, the Chief Operating Officer and Vice Chairman of the Company and the chairman of Beijing Spatial Port Technology Ltd. ("Beijing Spatial Port"). Mr. Wang oversees the daily operation of the Group including project management, sales and marketing, business development, human resources management and office administration. Mr. Wang holds a bachelor's degree in Geology from Peking University and a master's degree in Economics from Jilin University. He has extensive experience in the design, construction and management of highways and was the deputy general manager of Jilin Wo Ken Biological Engineering Co., Ltd., during 1995 to 1998. He was employed as a senior management at the hi-tech industrial centre of Jilin Highway Development Co., Ltd. and Jilin Automobile Industry Trade Group during 1998 to 1999. Mr. Wang has extensive experience in the company daily operation and company management. Mr. Wang joined the Group on 12th May 1999.

**Mr. Yick Chong San** (易仲申), *ACCA, B.A.*, aged 33, is one of the founders and the Chief Financial Officer of the Group. Mr. Yick holds a bachelor's degree in accounting from the City University of Hong Kong and is an associate member of the Association of Chartered Certified Accountants in the United Kingdom. He has more than eight years' experience in accounting and auditing and has worked in one international electric appliance manufacturer and one international accountancy firm for more than four years. Mr. Yick is responsible for the overall financial and accounting functions and management of the Group. Mr. Yick joined the Group on 12th May 1999.

#### Independent Non-executive Directors

**Prof. Hong Jun Yan** (洪君彥), *B.A., M.A.*, aged 70, is a professor of the Department of International Economics of Peking University. Prof. Hong holds a master's degree in arts from Peking University and a bachelor's degree in arts from Yenching University. He has extensive teaching and research experience in business and economics. In the 1980s, Prof. Hong was granted a research fellowship by Columbia University and University of Michigan, Ann Arbor in the United States. He has also been teaching at Peking University for more than 40 years. Prof. Hong was appointed as an independent non-executive Director on 4th May 2001.

## > profiles of directors and senior management

**Prof. Zhou Qi Ming** (周啓鳴), *B.Sc., Ph.D.*, aged 45, is an associate professor of the Department of Geography at the Hong Kong Baptist University. Prof. Zhou holds a doctor's degree in philosophy from the School of Geography at the University of New South Wales, Australia. Before joining the Hong Kong Baptist University in 1997, he has taught at the University of New South Wales since 1990. Apart from teaching, Prof. Zhou has also been a consultant providing advice on GIS to various organisations such as the Lands Department and Agricultural and Fishery Department of Hong Kong, Asian Development Bank, The Ministry of Science and Technology in Mainland China and the United Nations. He was appointed as an independent non-executive Director on 4th May 2001.

### **Honorary Chairman**

**Prof. He Xiao Feng** (何小鋒), *M.A.*, aged 47, is one of the founders of the Group and the Honorary Chairman of the Company. Prof. He holds a master's degree in economics from Peking University and has more than eight years of experience in finance, securities and business management. He is also a professor of the School of Economics and the Deputy Director of the Capital Development Institute of Peking University. Prof. He won the An Tze Jie Award for International Trade (安子介國際貿易獎) from the Ministry of Economy and Trade of China in 1999 and the Social Science Award of Peking University in 1984. Prof. He joined the Group on 12th May 1999.

### **SENIOR MANAGEMENT**

**Prof. Yang Kai Zhong** (楊開忠), *PH. D.*, aged 40, is a Director of Beijing Spatial Port. Prof. Yang is the Chairman of both the Urban and Environmental Sciences Department and the RS and GIS Institute of Peking University. He is also the Deputy Chairman of the Capital Development Institute of Peking University and a committee member of the National RS Centre Experts Committee, Mainland China. Prof. Yang possesses an excellent combination of economic and technological knowledge which provides significant value to the Group's development. Prof. Yang is one of the initial management shareholders. Prof. Yang joined the Group on 12th May 1999.

**Dr. Liu Yue Feng** (劉岳峰), *PH. D.*, aged 32, is the Vice President (Projects) and Chief Technical Officer of Beijing Spatial Port. He has extensive experience in projects management and participated in many important geospatial projects which included "The impact of the rise of sea level caused by global warming on the coastal cities of Mainland China and the solution" commissioned by the National Natural Science Fund, "The management information system on the spatial information of the water environment of Yangtze River in Wuhan" and "City GIS for publication". Dr. Liu is primarily responsible for the project management of the Group. He joined the Group in May 1999.

## > profiles of directors and senior management

**Prof. Wu Lun** (鄔崙，曾用名鄔崙), *PH. D.*, aged 37, is a Director of Beijing Spatial Port and one of the initial management shareholders. Prof. Wu is one of the most prominent figures in GIS, RS and GPS software development and system integration in Mainland China. He is a professor of the Department of Urban and Environmental Sciences and the chairman of the GIS office of Peking University in Mainland China. He is also a consultant of the United Nation's Development Programme, and the United Nation's Food and Agriculture Organisation. Prof. Wu won the Chinese Science Academy's Technological Advancement Award in 1995. He is responsible for the research and development activities of the Group. Prof. Wu joined the Group on 12th May 1999.

**Dr. Cheng Cheng Qi** (程承旗), *D. Sc.*, aged 41, is a Director of Beijing Spatial Port. Dr. Cheng serves concurrently as the Vice Chairman and a professor of the R S and Geographical Information System Research Institute of Peking University, and is the Chairman of China GIS Association and China GIS Engineering and Application Professional Committee. Concurrently, Dr. Cheng is the officer-in-charge of two important projects under the "863 Program". He has engaged in spatial information research for a long time, and is particularly experienced in geographical information engineering, design and development of geographical information system software, spatial information sharing technology, environmental R S model and the uses of spatial information for enterprises.

**Mr. Lai Yi Bin** (賴亦斌), *B. A.*, aged 34, is a Vice President (Business Development) of Beijing Spatial Port. Mr. Lai is mainly responsible for the development of business of Beijing Spatial Port in the southern areas. Mr. Lai holds a bachelor degree in structural geology. Before joining the Group in May 1999, he was the Deputy General Manager of Shenzhen Wanlitong Investment Network Company Limited (a company principally engaged in network engineering, software engineering and logistic communications), and was in charge of the control and administration of network projects and the development of application software. Mr. Lai was also a Designer and Project Manager of Wanlitong National Information Network. Between 1992 and 1993, Mr. Lai worked as the manager of the development department of No. 4 Research Institute, Zhuhai Giant Group, a software development company, leading the development of Call Centre System.

**Mr. Zeng Tao** (曾濤) *B. Sc.*, aged 34, is a Vice President (Business Development) of Beijing Spatial Port, and is mainly responsible for the development of the business of Beijing Spatial Port in southern and western areas. Mr. Zeng graduated from the Department of Computer Sciences and Engineering, Faculty of Computer Studies, Sichuan University, and is presently working for his EMBA degree in Zhongshan University. Before joining the Group in 2000, Mr. Zeng was the Deputy Manager of Shenzhen Wanlitong Information Network Company Limited (a company mainly engaged in telecommunication operation and valued added services). He was in charge of business development and project management, and also participated in capital operation. From 1992 to 1995, Mr. Zeng worked as Senior Programming Officer and Project Manager with the Computer Research Institute of Sichuan University and the Zhuhai Giant Group, leading the development of Call Centre System.

## > profiles of directors and senior management

**Mr. Chen Ying Ming** (陳英明) *B. Sc.*, aged 53, is a Vice President of Beijing Spatial Port. Mr. Chen holds a bachelor degree in science from Hebei Chemical Institute. Before joining the Group in December 1999, Mr. Chen worked at the General Office of the CPC Central Committee and General Office of the State Council from 1981 to 1988. Mr. Chen has extensive experience in administration, property development and human resources management.

**Mr. Yang Zhi Yuan** (楊志遠), *B. Sc.*, aged 34, is the Chief Operating Officer of Beijing Spatial Port. Mr. Yang has engaged in international import and export business for many years. In 2000, Mr. Yang entered into the field of 3S technology, and is the first to be in charge of the technological development, market development and sales of Cityonmap. Mr. Yang has deep and extensive experience in technological creation, corporate management, and marketing.

**Ms. Wang Li Xin** (王立新), *B. Eng.*, aged 36, joined Beijing Spatial Port in August 1999 and is currently the Financial Controller of Beijing Spatial Port. Prior to joining Beijing Spatial Port, Ms. Wang worked with several companies as accounting officer and financial controller. She is familiar with the relevant accounting systems, laws and regulations of the PRC, and has extensive experience in financial field.

**Ms. Li Zi Wei** (李紫薇), *M. Eng.*, RS Professional Research Institute, aged 43, joined Beijing Spatial Port in July 2002. She is currently the General Manager of Beijing Spatial Port Survey System Ltd. (北京時空港測量系統公司), and is responsible for the marketing, organization and implementation of applicable technology of high-accuracy spatial information. Prior to joining Beijing Spatial Port, Ms. Li was an Associate Professor of the RS Teaching and Research Section of the Survey and Mapping Institute under the Liberation Army; a fellow of the China Survey and Mapping Science Institute; Chairman of the Survey and Mapping Technology Centre; and Chairman of Lai Ka Survey System Company Limited of Switzerland (瑞士徠卡測量系統股份有限公司).

**Ms. Yuan Ping** (袁平), *LLB.*, aged 37, is the Sales and Marketing Manager of Beijing Spatial Port. Ms. Yuan holds a LLB degree from Beijing University, and has extensive experience in organizing promotional activities. Prior to joining the Group, Ms. Yuan worked with the Fang Da Technology Development Group (方大科技發展集團有限公司) during the period between 1997 and 1999, and was in charge of sales and marketing. She joined the Group in April 2000.



## > report of the directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30th June 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant 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 activity and geographical area of operations for the year ended 30th June 2002 is set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 30th June 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 60.

The directors do not recommend the payment of any final dividend in respect of the year (2001: Nil).

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined results of the Group for the last three financial periods:

	<b>Year ended 30th June 2002</b>	Year ended 30th June 2001	Period from 12th May 1999 to 30th June 2000 (note)
	<b>HK\$'000</b>	HK\$'000	HK\$'000
TURNOVER	<b>4,418</b>	14,229	23,852
PROFIT/(LOSS) BEFORE TAX	<b>(20,016)</b>	(3,984)	3,130
Tax	<b>—</b>	—	(316)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>(20,016)</b>	(3,984)	2,814
Minority interests	<b>202</b>	—	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<b>(19,814)</b>	(3,984)	2,814
TOTAL ASSETS	<b>50,499</b>	83,732	29,503
TOTAL LIABILITIES	<b>(5,566)</b>	(19,208)	(26,689)
MINORITY INTERESTS	<b>(223)</b>	—	—
	<b>44,710</b>	64,524	2,814

## > report of the directors

*Note:* The summary of the combined results for the period ended 30th June 2000 has been extracted from the Company's prospectus dated 18th May 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial period, or since the date of incorporation of the companies where this is a shorter period.

The consolidated results for the year ended 30th June 2001 has been extracted from the published audited financial statements of the Company for that year.

### **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital during the year are set out in note 22 to the financial statements. Details of the Company's share option scheme are set out under the heading "Share option scheme" in the Report of the Directors.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 30th June 2002, the Company did not have any reserves available for distribution as calculated in accordance with the laws of the Cayman Islands. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as 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 which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 80% of the total sales for the year and sales to the largest customer included therein amounted to 37%. Purchases from the Group's four largest suppliers accounted for 100% of the total purchases for the year and purchases from the largest supplier included therein amounted to 70%.

## > report of the directors

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

### **DIRECTORS**

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

#### **Executive directors:**

Wang Guo Wei

Liu Hao

Yick Chong San

He Xiao Feng (resigned on 24th June 2002)

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

Hong Jun Yan

Zhou Qi Ming

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

### **DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 19 to 22 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS**

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

### **DIRECTORS' INTERESTS IN CONTRACTS**

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

## > report of the directors

### DIRECTORS' INTERESTS IN SHARES

At 30th June 2002, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

#### Ordinary shares of the Company

Name of director	Number of shares held and nature of interest		
	Personal	Corporate	Total
Wang Guo Wei	1,920,000	—	1,920,000
Liu Hao	1,200,000	—	1,200,000
Yick Chong San	—	105,921,569 <sup>#</sup>	105,921,569
	3,120,000	105,921,569	109,041,569

# 105,921,569 shares of the Company are held by Cyber Town Company Limited and are beneficially owned as to 30% by Mr. Yick Chong San.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

Name of director	Date of grant	Number of options	Exercise price
		outstanding at 30th June 2002	of options HK\$
Wang Guo Wei	14th May 2001	1,760,000	0.6
Liu Hao	14th May 2001	8,160,000	0.6
Yick Chong San	14th May 2001	5,760,000	0.6
Hong Jun Yan	14th May 2001	400,000	0.6
Zhou Qi Ming	14th May 2001	400,000	0.6
		<u>16,480,000</u>	

The directors will be entitled to exercise (i) one-third of the options after the expiry of two years from 1st June 2001; (ii) one-third of the options after the expiry of three years from 1st June 2001; and (iii) the remaining options after the expiry of four years from 1st June 2001.

## > report of the directors

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

### SHARE OPTION SCHEMES

- (a) The Company adopted a share option scheme (the “Share Option Scheme”) on 14th May 2001 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Under the Share Option Scheme, the Company may grant options to the executive directors and employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options.

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

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

- (b) Pursuant to a written resolution of the sole shareholder of the Company dated 4th May 2001, the Company also adopted the Pre-IPO Share Option Scheme. The terms of the Pre-IPO Share Option Scheme are substantially the same as those under the Share Option Scheme except that:
- (1) the subscription price is HK\$0.60;
  - (2) the aggregate number of shares subject to the Pre-IPO Share Option Scheme is 40,000,000;
  - (3) the grantees eligible for the options include employees who are not in full-time employment, independent non-executive directors and consultants and advisers to the Group;
  - (4) the option holders will be entitled to exercise (i) one-third of the options after the expiry of two years from 1st June 2001; (ii) one-third of the options after the expiry of three years from 1st June 2001; and (iii) the remaining options after the expiry of four years from 1st June 2001.

## > report of the directors

No options were granted during the year. Details of the share options outstanding at the balance sheet date are as follows:

<b>Categories of grantees</b>	<b>Date of grant</b>	<b>Number of options outstanding at 30th June 2002</b>	<b>Exercise price of options HK\$</b>
Directors of the Company and its subsidiaries	14th May 2001	16,480,000	0.6
Employees of the Group	14th May 2001	<u>23,520,000</u>	0.6
		<u>40,000,000</u>	

### SUBSTANTIAL SHAREHOLDERS

At 30th June 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:

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>Percentage of share holding</b>
Global Eagle Investments Limited	114,509,804	27.59%
Cyber Town Company Limited*	105,921,569	25.52%
Cyber City Technology Limited	57,254,902	13.8%

\* Cyber Town Company Limited is beneficially owned as to 30% by Mr. Yick Chong San.

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

### SPONSOR'S INTEREST

Anglo Chinese Corporate Finance, Limited has confirmed:

- (i) neither itself nor its associates has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Group (including options or rights to subscribe such securities);
- (ii) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited who are involved in providing advice to the Company has or may have, any interest in any class of securities of the Company or any other company within the Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such directors or employee pursuant to the share offer); and
- (iii) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited has a directorship in the Company or any other company within the Group.

## > report of the directors

### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

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

### **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 throughout the year ended 30th June 2002.

### **AUDIT COMMITTEE**

The Company established an audit committee comprising two non-executive directors of the Company on 4th May 2001. A written terms of reference, which set out the authority and duties of the audit committee, was also approved by the directors on the same date. The audit committee held four meetings during the year.

### **AUDITORS**

Ernst & Young retire at the forthcoming annual general meeting and will not seek for reappointment at the meeting.

ON BEHALF OF THE BOARD

**Yick Chong San**

*Director*

Hong Kong

8th October 2002

## > report of the auditors



To the members

**Riverhill Holdings Limited**

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

We have audited the financial statements on pages 32 to 60 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, except that the scope of our work was limited as explained below. 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. However, the evidence available to us was limited as follows:

1. As further detailed in note 25 to the financial statements, the Group pledged a fixed deposit of HK\$10 million to a bank for a facility granted to an investee company of a shareholder of the Company. The pledge has not been released up to the date of approval of these financial statements. The directors have advised that the intended purpose of the pledged deposit is to secure the referral of future revenue to the Group by the company. However, no documentary evidence concerning the intended purpose of the pledged deposit was available to ourselves nor have we been able to obtain sufficient evidence to determine the recoverability thereof. There were no practical alternative audit procedures that we could perform to obtain sufficient evidence regarding the intended purpose and the recoverability of the pledged deposit. Any adjustment to the carrying amount of the pledged deposit would have a consequential impact on the Group's net assets as at 30th June 2002 and its loss for the year then ended.



## > report of the auditors

### **Basis of opinion (continued)**

2. As further detailed in note 13 to the financial statements, the Group purchased certain software at an aggregate cost of HK\$2,350,000. The net book value of the software at 30th June 2002 was approximately HK\$2,210,000. The directors have advised that the software was purchased to generate future revenues for the Group arising from certain information technology contract services. However, the evidence available to us to support the directors' view was limited. Only one contract with an insignificant value had been concluded by the Group as at the date of approval of these financial statements. Accordingly there is an indication that the carrying value of the software may be impaired potentially to the full extent. There were no other satisfactory audit procedures that we could perform to assess the recoverable amounts of the software as at 30th June 2002. Any adjustment to the carrying amount of the software in respect of an impairment provision would have a consequential impact on the Group's net assets as at 30th June 2002 and its loss for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Qualified opinion arising from limitation of audit scope**

Except for any adjustments or disclosures that might have been found to be necessary had we been able to obtain sufficient evidence relating to the matters discussed in the preceding paragraphs, 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 30th June 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.

In respect alone of the limitation on our work relating to the pledged deposit and the software,

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
8th October 2002

## &gt; consolidated profit and loss account

Year ended 30th June 2002

	Notes	2002 HK\$	2001 HK\$
TURNOVER	5	4,418,284	14,228,828
Cost of sales		(5,005,773)	(10,318,442)
Gross profit/(loss)		(587,489)	3,910,386
Other revenue	5	1,903,735	1,739,119
Selling and distribution costs		(935,318)	(890,787)
General and administrative expenses		(14,875,727)	(7,936,204)
Other expenses	6	(4,921,304)	(806,819)
LOSS FROM OPERATING ACTIVITIES	6	(19,416,103)	(3,984,305)
Finance costs	7	(268,319)	—
Share of losses of associates		(331,262)	—
LOSS BEFORE TAX		(20,015,684)	(3,984,305)
Tax	9	—	—
LOSS BEFORE MINORITY INTERESTS		(20,015,684)	(3,984,305)
Minority interests		202,132	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	(19,813,552)	(3,984,305)
Loss per share — basic	11	(4.77 cents)	(1.29 cents)

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

## &gt; consolidated balance sheet

30th June 2002

	Notes	2002 HK\$	2001 HK\$ (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	<b>2,581,472</b>	1,129,105
Intangible assets	13	<b>2,359,460</b>	3,738,038
Interests in associates	16	<b>7,688,511</b>	—
Pledged deposit	25	<b>10,000,000</b>	—
		<b>22,629,443</b>	4,867,143
<b>CURRENT ASSETS</b>			
Inventories	17	<b>4,165,974</b>	1,392,879
Trade receivables	18	<b>2,935,701</b>	8,960,814
Prepayments, deposits and other receivables	20	<b>12,692,391</b>	2,977,364
Cash and bank balances		<b>8,075,149</b>	65,533,354
		<b>27,869,215</b>	78,864,411
<b>CURRENT LIABILITIES</b>			
Other payables and accrued liabilities		<b>3,199,161</b>	2,730,855
Trade payables	19	<b>156,179</b>	2,570,255
Deferred revenue	20	<b>1,894,393</b>	—
Tax payable		<b>316,000</b>	316,000
Due to a shareholder	21	<b>—</b>	13,591,000
		<b>5,565,733</b>	19,208,110
<b>NET CURRENT ASSETS</b>		<b>22,303,482</b>	59,656,301
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>44,932,925</b>	64,523,444
<b>MINORITY INTERESTS</b>		<b>223,033</b>	—
		<b>44,709,892</b>	64,523,444
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	<b>41,500,000</b>	41,500,000
Reserves	23	<b>3,209,892</b>	23,023,444
		<b>44,709,892</b>	64,523,444

**Wang Guo Wei**  
Director

**Yick Chong San**  
Director

## &gt; consolidated cash flow statement

year ended 30th June 2002

	Notes	2002 HK\$	2001 HK\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24(a)	<b>(16,625,162)</b>	(4,277,197)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		<b>712,202</b>	1,458,511
Interest paid		<b>(268,319)</b>	—
Net cash inflow from returns on investment and servicing of finance		<b>443,883</b>	1,458,511
INVESTING ACTIVITIES			
Cash advances to the Group's staff, a subsidiary of a shareholder of the Company and other borrowers		<b>(24,976,960)</b>	—
Repayment of cash advances from the Group's staff, a subsidiary of a shareholder of the Company and other borrowers		<b>19,976,960</b>	—
Purchases of fixed assets		<b>(1,965,926)</b>	(832,853)
Proceeds from disposal of fixed assets		<b>142,495</b>	38,885
Additions of intangible assets		<b>(2,350,000)</b>	—
Loans to an associate		<b>(2,506,372)</b>	—
Acquisition of a subsidiary	24(c)	<b>221,914</b>	—
Acquisition of associates		<b>(6,414,953)</b>	—
Increase in pledged deposit		<b>(10,000,000)</b>	—
Net cash outflow from investing activities		<b>(27,872,842)</b>	(793,968)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<b>(44,054,121)</b>	(3,612,654)
FINANCING ACTIVITIES	24(b)		
Repayment of an amount due to a shareholder		<b>(13,591,000)</b>	—
Capital injection from minority interests		<b>186,916</b>	—
Gross proceeds from issue of share capital		—	69,000,000
Share issue expenses		—	(12,022,207)
Advances from shareholders		—	208,768
Net cash inflow/(outflow) from financing activities		<b>(13,404,084)</b>	57,186,561
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>(57,458,205)</b>	53,573,907
Cash and cash equivalents at beginning of year		<b>65,533,354</b>	11,959,447
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>8,075,149</b>	65,533,354
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<b>8,075,149</b>	65,533,354

## &gt; balance sheet

30th June 2002

	Notes	2002 HK\$	2001 HK\$
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	<b>42,218,541</b>	1,080,601
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		<b>37,250</b>	1,031,685
Cash and bank balances		<b>398,747</b>	61,335,568
		<b>435,997</b>	62,367,253
<b>CURRENT LIABILITIES</b>			
Other payables and accrued liabilities		<b>406,590</b>	251,726
<b>NET CURRENT ASSETS</b>			
		<b>29,407</b>	62,115,527
		<b>42,247,948</b>	63,196,128
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	<b>41,500,000</b>	41,500,000
Reserves	23	<b>747,948</b>	21,696,128
		<b>42,247,948</b>	63,196,128

**Wang Guo Wei**  
Director

**Yick Chong San**  
Director

## > notes to the financial statements

30th June 2002

### 1. CORPORATE INFORMATION AND UPDATE

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

During the year, the Group incurred a net loss attributable to shareholders of approximately HK\$19.8 million and generated negative cash flows. The Group has taken a number of measures to reduce operating expenses, to attain profitable operation and to improve operating cash flows in the ensuing year. The directors are of the opinion that, with the above measures taken to date, the Group will have sufficient cash resources to meet its future working capital requirements and, accordingly, have prepared the financial statements on a going concern basis.

### 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”) are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- 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”

These SSAPs 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 significant effect on the financial statements, are summarised as follows:

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The principal impact of this SSAP on the financial statements is that computer software which was recorded in fixed assets in previous years is now disclosed as intangible assets. This reclassification has had no effect on the net carrying amount of the Group’s assets.

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 as required, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of 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. The required new additional disclosures are included in notes 14 and 16 to the financial statements.

## > notes to the financial statements

30th June 2002

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

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

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30th June 2002. The results of subsidiaries acquired during the year are consolidated from their effective dates of acquisition. 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.

#### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

#### **Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

## > notes to the financial statements

30th June 2002

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

#### Goodwill (continued)

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### 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.

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/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### 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:

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

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



## > notes to the financial statements

30th June 2002

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

#### **Intangible assets**

Intangible assets represent purchased computer software, which is stated at cost and amortised on the straight-line basis over their estimated useful lives of two to three years.

#### **Inventories**

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

#### **Deferred revenue**

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

#### **Research and development costs**

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

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

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

#### **Operating leases**

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

#### **Deferred tax**

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

## > notes to the financial statements

30th June 2002

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

#### **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.

#### **Related parties**

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

#### **Foreign currencies**

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

On consolidation, the financial statements of overseas subsidiaries and associates 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.

#### **Retirement benefits scheme**

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

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

## > notes to the financial statements

30th June 2002

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

#### Revenue recognition

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

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

### 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed 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 structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents 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) the sales of software and hardware segment mainly for geographic information system ("GIS") and global positioning system ("GPS") related services;
- (b) the provision of information technology contract services mainly for GIS and GPS related services; and
- (c) the corporate and other segment comprises the Group's corporate income and expenses items.

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.

## &gt; notes to the financial statements

30th June 2002

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

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

**Group**

	Sales of software and hardware		Provision of information technology contract services		Corporate and other		Consolidated	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Segment revenue:								
Sales to external customers	1,513,424	7,609,569	2,904,860	6,619,259	—	—	4,418,284	14,228,828
Other revenue	821,972	280,608	—	—	396,561	—	1,191,533	280,608
<b>Total</b>	<b>2,335,396</b>	<b>7,890,177</b>	<b>2,904,860</b>	<b>6,619,259</b>	<b>369,561</b>	<b>—</b>	<b>5,609,817</b>	<b>14,509,436</b>
Segment results	(2,215,716)	(1,404,175)	(14,731,246)	(1,340,626)	(3,181,343)	(2,698,015)	(20,128,305)	(5,442,816)
Interest income							712,202	1,458,511
Loss from operating activities							(19,416,103)	(3,984,305)
Finance costs							(268,319)	—
Share of losses of associates	—	—	(331,262)	—	—	—	(331,262)	—
Loss before tax							(20,015,684)	(3,984,305)
Tax							—	—
Loss before minority interests							(20,015,684)	(3,984,305)
Minority interests							202,132	—
Net loss from ordinary activities attributable to shareholders							(19,813,552)	(3,984,305)
Segment assets	3,476,664	6,335,874	30,783,118	8,626,570	16,238,876	68,769,110	50,498,658	83,731,554
Segment liabilities	334,367	2,727,620	3,958,950	211,197	1,272,416	16,269,293	5,565,733	19,208,110
Other segment information:								
Depreciation and amortisation	—	—	3,292,309	2,699,226	342,889	171,914	3,635,198	2,871,140
Impairment of computer software	—	—	901,398	—	—	—	901,398	—
Impairment of goodwill	—	—	785,797	—	—	—	785,797	—
Other non-cash expenses	—	—	228,972	—	—	—	228,972	—
Capital expenditure	—	—	2,350,000	—	1,965,926	832,853	4,315,926	832,853

## &gt; notes to the financial statements

30th June 2002

## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue, loss and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in Mainland China		Consolidated	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Segment revenue:						
Sales to external customers	<b>1,680,000</b>	486,954	<b>2,738,284</b>	13,741,874	<b>4,418,284</b>	14,228,828
Segment results	<b>(6,580,807)</b>	(4,138,710)	<b>(13,547,498)</b>	(1,304,106)	<b>(20,128,305)</b>	(5,442,816)
Other segment information:						
Segment assets	<b>25,197,851</b>	65,201,090	<b>25,300,807</b>	18,530,464	<b>50,498,658</b>	83,731,554
Capital expenditure	<b>23,819</b>	347,496	<b>4,292,107</b>	485,357	<b>4,315,926</b>	832,853

## 5. TURNOVER AND REVENUE

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

	2002 HK\$	2001 HK\$
<b>Turnover</b>		
Sales of software and hardware	<b>1,540,332</b>	7,643,207
Provision of information technology contract services		
Internet related	—	4,465,970
GIS, GPS related	<b>2,906,168</b>	2,962,616
Sales tax, discounts and allowances	<b>(28,216)</b>	(842,965)
	<b>4,418,284</b>	14,228,828
<b>Other revenue</b>		
Interest income	<b>712,202</b>	1,458,511
Other income	<b>1,191,533</b>	280,608
	<b>1,903,735</b>	1,739,119
	<b>6,322,019</b>	15,967,947

## &gt; notes to the financial statements

30th June 2002

## 6. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$	2001 HK\$ (Restated)
Cost of inventories sold	956,974	6,637,037
Cost of services rendered	4,048,799	3,681,405
Auditors' remuneration	800,000	420,000
Depreciation	342,889	194,158
Amortisation of computer software (note i)	2,827,180	2,676,982
Minimum lease payments under operating lease in respect of land and buildings	1,295,293	828,014
Staff costs (note ii) (including directors' remuneration — note 8):		
Wages and salaries (note iii)	7,183,146	4,173,442
Pension scheme contributions (note iv)	310,076	219,155
Less: Amount capitalised into contract work in progress	(203,283)	(250,812)
	<b>7,289,939</b>	4,141,785
Exchange losses, net	137,445	14,824
Interest income	(712,202)	(1,458,511)
Other expenses:		
Research and development costs	2,540,008	806,819
Impairment of computer software	901,398	—
Amortisation of goodwill	465,129	—
Impairment of goodwill on acquisition of a subsidiary	349,374	—
Impairment of goodwill on acquisition of an associate	436,423	—
Provision for other receivable	228,972	—
	<b>4,921,304</b>	806,819

## Notes:

- i. The amortisation of computer software for the year and in the prior year is included in "Cost of sales" on the face of the profit and loss account. The amortisation in the prior year was previously recorded as depreciation and is now separately disclosed as a result of the adoption of SSAP 29 as detailed in note 2 to the financial statements.
- ii. During the year, unsecured cash advances of HK\$8,976,960, with individual amount ranging from HK\$900,000 to HK\$3,576,960, were advanced to certain staff for periods ranging from 18 days to 175 days. Except for an advance of HK\$3,576,960 which was interest-free, the cash advances were interest-bearing at 7.25% per annum. All advances were fully settled during the year. No value in respect of the above cash advances has been charged to the profit and loss account as the directors are unable to arrive at an accurate assessment of the value of the cash advances made during the year.
- iii. Wages and salaries of HK\$870,649 (2001:HK\$362,655) was incurred for research and development costs and were recorded in other expenses.
- iv. During the year, there were no forfeited contributions available to offset the Group's pension scheme contributions (2001: Nil). At 30th June 2002, there were no forfeited contributions available to reduce contributions in future years (2001: Nil).

## &gt; notes to the financial statements

30th June 2002

## 7. FINANCE COSTS

	GROUP	
	2002	2001
	HK\$	HK\$
Interest expenses paid to a shareholder	268,319	—

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

## (a) Directors' remuneration

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

	GROUP	
	2002	2001
	HK\$	HK\$
Independent non-executive directors:		
Fees	50,000	10,000
Executive directors:		
Fees	208,629	119,366
Salaries and allowances	2,302,090	459,986
Bonuses	—	312,000
Pension scheme contributions	12,000	9,134
	2,522,719	900,486
	2,572,719	910,486

The remuneration of the above directors fell within the following band is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	6	7

The four executive directors received individual emoluments (fees, salaries and allowances, bonuses, pension scheme contributions) of HK\$827,200, HK\$596,019, HK\$559,720, and HK\$539,780, respectively for the year ended 30th June 2002.

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

## &gt; notes to the financial statements

30th June 2002

**8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)****(a) Directors' remuneration (continued)**

The two non-executive directors received individual emoluments (fees) of HK\$30,000 and HK\$20,000 respectively for the year ended 30th June 2002.

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

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

**(b) Five highest paid employees**

The five highest paid employees during the year included four (2001: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2001: two) non-director highest paid employee are as follows:

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Salaries, allowances and benefits in kind	<b>562,685</b>	384,579
Pension scheme contributions	<b>12,000</b>	11,000
	<b>574,685</b>	395,579

The remuneration of the non-director, highest paid employees fell within the following band is as follows:

	<b>Number of employees</b>	
	<b>2002</b>	2001
Nil to HK\$1,000,000	<b>1</b>	2

**9. TAX**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil).

Beijing Spatial Port Technology Ltd., the Company's subsidiary, is located in Haidan District, Beijing, one of the PRC's "High Technology Industrial Development Zones". In accordance with the relevant tax rules and regulations in the PRC, the company is entitled to exemption from corporate income tax ("CIT") for the three years from 2000 to 2002, and is entitled to a 50% exemption from CIT for the next three years from 2003 to 2005. It is subject to CIT at a reduced rate of 15%. The company did not generate any assessable profits during the year (2001: Nil).



## > notes to the financial statements

30th June 2002

### 9. TAX (continued)

Deferred tax liabilities have not been provided as there were no significant timing differences at the balance sheet date (2001: Nil).

### 10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$20,948,180 (2001: net profit of HK\$410,072).

### 11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$19,813,552 (2001: HK\$3,984,305) and on the weighted average number of 415,000,000 (2001: 309,583,333) ordinary shares in issue during the year.

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

## &gt; notes to the financial statements

30th June 2002

## 12. FIXED ASSETS

## GROUP

	Computer equipment HK\$	Furniture, fixtures, motor vehicles and equipment HK\$	Total HK\$
Cost:			
At beginning of year			
As previously reported	8,812,056	607,790	9,419,846
Reclassified to intangible assets* (note 13)	(8,060,714)	—	(8,060,714)
As restated	751,342	607,790	1,359,132
Additions	414,814	1,551,112	1,965,926
Disposals	(9,813)	(213,200)	(223,013)
At 30th June 2002	1,156,343	1,945,702	3,102,045
Accumulated depreciation:			
At beginning of year			
As previously reported	4,479,028	73,675	4,552,703
Reclassified to intangible assets* (note 13)	(4,322,676)	—	(4,322,676)
As restated	156,352	73,675	230,027
Provided for the year	178,234	164,655	342,889
Disposals	—	(52,343)	(52,343)
At 30th June 2002	334,586	185,987	520,573
Net book value:			
At 30th June 2002	821,757	1,759,715	2,581,472
At 30th June 2001 (As restated)	594,990	534,115	1,129,105

\* Computer software, which was previously recorded as fixed assets, is reclassified to intangible assets as a result of the adoption of SSAP 29, as detailed in note 2 to the financial statements. This change has been accounted for as a retrospective reclassification.

## &gt; notes to the financial statements

30th June 2002

## 13. INTANGIBLE ASSETS

## GROUP

	<b>Computer software</b>
	HK\$
<hr/>	
Cost:	
At beginning of year	
As previously reported	—
Reclassified from fixed assets (note 12)	8,060,714
	<hr/>
As restated	8,060,714
Additions	2,350,000
	<hr/>
At 30th June 2002	10,410,714
	<hr/>
Accumulated amortisation and impairment:	
At beginning of year	
As previously reported	—
Reclassified from fixed assets (note 12)	4,322,676
	<hr/>
As restated	4,322,676
Provided during the year	2,827,180
Impairment during the year recognised in the profit and loss account	901,398
	<hr/>
At 30th June 2002	8,051,254
	<hr/>
Net book value:	
At 30th June 2002	2,359,460
	<hr/>
At 30th June 2001	3,738,038
	<hr/>

## &gt; notes to the financial statements

30th June 2002

## 14. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amount of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of a subsidiary, is as follows:

**GROUP**

	HK\$
Cost:	
Acquisition of a subsidiary (note 24(c)) and balance at 30th June 2002	349,374
Accumulated impairment:	
Impairment provided during the year and balance at 30th June 2002	(349,374)
Net book value:	
At 30th June 2002	—

## 15. INTERESTS IN SUBSIDIARIES

	<b>COMPANY</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Unlisted investments, at cost	<b>5,008,263</b>	5,008,263
Due from a subsidiary	<b>51,766,450</b>	—
Due to a subsidiary	<b>(56,172)</b>	(3,927,662)
Provision for impairment	<b>56,718,541</b>	1,080,601
	<b>(14,500,000)</b>	—
	<b>42,218,541</b>	1,080,601

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## &gt; notes to the financial statements

30th June 2002

## 15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cyber World Technology Limited	British Virgin Islands/ Hong Kong	US\$102	100	—	Investment holding and provision of information technology contract services
Beijing Spatial Port Technology Ltd. (Formerly known as Beijing Spatial Port Network Technology Ltd.)	PRC	HK\$16,000,000	—	100	Provision of information technology contract services and software distribution
Xi'an Giahe Information Consultation Industry Co., Ltd. ("Xi'an Giahe")	PRC	RMB1,250,000	—	52	Provision of information technology contract services
Changsha Tungbei Spatial Technology Co., Ltd	PRC	RMB1,000,000	—	80	Provision of information technology contract services

## 16. INTERESTS IN ASSOCIATES

	GROUP	
	2002 HK\$	2001 HK\$
Share of net assets	995,982	—
Goodwill on acquisition	4,186,157	—
Loans to an associate	2,506,372	—
	<b>7,688,511</b>	—

## &gt; notes to the financial statements

30th June 2002

## 16. INTERESTS IN ASSOCIATES (continued)

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of associates, are as follows:

	HK\$
Cost:	
Acquisition of associates and balance at 30th June 2002	5,087,709
Accumulated amortisation and impairment:	
Amortisation provided during the year	465,129
Impairment provided during the year	436,423
At 30th June 2002	901,552
Net book value:	
At 30th June 2002	4,186,157

The loans to an associate are unsecured, interest-free and not repayable within one year.

During the year, the Group acquired 35% interest in Beijing Cityonmap Technology Co., Ltd. ("Cityonmap") from an independent third party at a consideration of HK\$5,200,000. The relevant process for accomplishing the Group's ownership in Cityonmap was still in progress as at 30th June 2002 and at the date of approval of these financial statements.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Cityonmap Technology Co., Ltd.	Corporate	PRC	35	Development and sales of personal digital assistant
Jingzhou Jingchu Spatial Technology Co., Ltd.	Corporate	PRC	37.5	Dormant
Wuhan GIS Information Technology Ltd. Corp.	Corporate	PRC	25	Provision of information technology contract services

## &gt; notes to the financial statements

30th June 2002

## 17. INVENTORIES

	GROUP	
	2002	2001
	HK\$	HK\$
Contract work in progress	773,048	334,345
Merchandise for sale	3,392,926	1,058,534
	<b>4,165,974</b>	<b>1,392,879</b>

## 18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 1 month, extending up to 2 months for major customers.

An aged analysis of the trade receivables as at the balance date, based on invoice date, is as follows:

	GROUP	
	2002	2001
	HK\$	HK\$
Within 1 month	2,928,224	8,355,299
1 to 2 months	—	541,682
Over 2 months	7,477	83,833
	<b>2,935,701</b>	<b>8,960,814</b>

## 19. TRADE PAYABLES

An aged analysis of the trade payables as at the balance date, based on invoice date, is as follows:

	GROUP	
	2002	2001
	HK\$	HK\$
Within 1 month	—	2,570,255
1 to 3 months	156,179	—
	<b>156,179</b>	<b>2,570,255</b>

## &gt; notes to the financial statements

30th June 2002

**20. DEFERRED REVENUE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

Included in deferred revenue is a contract service fee of approximately HK\$1,822,000 received in advance from Siping Wei Da Transportation Engineering Co., Ltd. ("Siping Wei Da"), a subsidiary of Well Pacific Investments Limited (see note 25) which is an investee company of a shareholder of the Company, in respect of GPS related contract. Included in prepayments, deposits and other receivables at 30th June 2002 is a deposit of approximately HK\$2,243,000 paid to a related company of Siping Wei Da in respect of purchases of hardware and software for the same contract. The above GPS contract has not been completed as at the balance sheet date.

**21. DUE TO A SHAREHOLDER**

The amount was unsecured, interest-bearing at Hong Kong prime rate per annum and was fully repaid during the year. The amount in the prior year was unsecured and interest-free up to 30th June 2001.

**22. SHARE CAPITAL****Shares**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	<b>80,000,000</b>	80,000,000
Issued and fully paid:		
415,000,000 ordinary shares of HK\$0.10 each	<b>41,500,000</b>	41,500,000



## &gt; notes to the financial statements

30th June 2002

## 23. RESERVES

## GROUP

	Share premium account HK\$	Contributed surplus HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1st July 2000	—	—	2,813,554	2,813,554
Arising on issue of shares for the acquisition of the entire issued share capital of Cyber World Technology Limited	—	7,906,202	—	7,906,202
Premium arising from issue of new shares to public	57,500,000	—	—	57,500,000
Transfer to share capital to pay up nil- paid shares allotted to shareholders	(29,189,800)	—	—	(29,189,800)
Share issue expenses	(12,022,207)	—	—	(12,022,207)
Loss for the year	—	—	(3,984,305)	(3,984,305)
At 30th June 2001	16,287,993	7,906,202	(1,170,751)	23,023,444
Loss for the year	—	—	(19,813,552)	(19,813,552)
At 30th June 2002	16,287,993	7,906,202	(20,984,303)	3,209,892
Reserves retained by:				
Company and subsidiaries	16,287,993	7,906,202	(20,653,041)	3,541,154
Associates	—	—	(331,262)	(331,262)
At 30th June 2002	16,287,993	7,906,202	(20,984,303)	3,209,892
Company and subsidiaries at 30th June 2001	16,284,993	7,906,202	(1,170,751)	23,023,444

The Group's contributed surplus represents the difference between the aggregate of the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the reorganisation in May 2001 and the nominal value of the Company's shares issued in exchange therefor.

## &gt; notes to the financial statements

30th June 2002

## 23. RESERVES (continued)

## COMPANY

	Share premium account HK\$	Contributed surplus HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
Arising on issue of shares for the acquisition of the entire issued share capital of Cyber World Technology Limited	—	4,998,063	—	4,998,063
Premium arising from issue of new shares to public	57,500,000	—	—	57,500,000
Transfer to share capital to pay up nil-paid shares allotted to shareholders	(29,189,800)	—	—	(29,189,800)
Share issue expenses	(12,022,207)	—	—	(12,022,207)
Profit for the year	—	—	410,072	410,072
At 30th June 2001	16,287,993	4,998,063	410,072	21,696,128
Loss for the year	—	—	(20,948,180)	(20,948,180)
At 30th June 2002	16,287,993	4,998,063	(20,538,108)	747,948

In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as 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.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the reorganisation in May 2001 and the nominal value of the shares issued by the Company.

## &gt; notes to the financial statements

30th June 2002

## 24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$	2001 HK\$ (Restated)
Loss from operating activities	<b>(19,416,103)</b>	(3,984,305)
Depreciation	<b>342,889</b>	194,158
Amortisation of computer software	<b>2,827,180</b>	2,676,982
Interest income	<b>(712,202)</b>	(1,458,511)
Loss on disposal of fixed assets	<b>28,175</b>	—
Amortisation of goodwill	<b>465,129</b>	—
Impairment of goodwill	<b>785,797</b>	—
Impairment of intangible assets	<b>901,398</b>	—
Provision for other receivables	<b>228,972</b>	—
Discretionary bonus applied to pay up the shares under Pre-IPO Issue	—	800,000
Increase in inventories	<b>(2,773,095)</b>	(738,864)
Decrease/(increase) in trade receivables	<b>6,025,113</b>	(6,203,814)
Decrease/(increase) in prepayments, deposits and other receivables	<b>(4,943,158)</b>	4,210,740
Increase in other payables and accrued liabilities	<b>134,426</b>	1,227,310
Increase/(decrease) in trade payables	<b>(2,414,076)</b>	1,571,266
Increase/(decrease) in deferred revenue	<b>1,894,393</b>	(2,403,531)
Decrease in an amount due to a director	—	(168,628)
<b>Net cash outflow from operating activities</b>	<b>(16,625,162)</b>	(4,277,197)

## &gt; notes to the financial statements

30th June 2002

## 24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (b) Analysis of changes in financing during the year

	Issued capital and share premium account HK\$	Due to shareholders HK\$	Minority interests HK\$
Balance at 30th June 2000 and 1st July 2000	—	21,297,861	—
Net cash inflow from financing activities	56,977,793	208,768	—
Capitalisation of amount due to Cyber Town Company Limited	—	(7,915,629)	—
Shares issued and allocated on incorporation	1	—	—
Shares issued as consideration for the acquisition of the entire share capital of subsidiaries	10,199	—	—
Pre-IPO issue	800,000	—	—
At 30th June 2001 and beginning of year	57,787,993	13,591,000	—
Net cash inflow/(outflow) from financing activities	—	(13,591,000)	186,916
Acquisition of a subsidiary	—	—	238,249
Share of losses of subsidiaries	—	—	(202,132)
At 30th June 2002	57,787,993	—	223,033

## (c) Acquisition of a subsidiary

	2002 HK\$
Net assets acquired:	
Cash and bank balances	829,391
Prepayments, deposits and other receivables	841
Other payables and accrued liabilities	(333,880)
Minority interests	(238,249)
	258,103
Goodwill on acquisition	349,374
	607,477
Satisfied by cash	607,477

## &gt; notes to the financial statements

30th June 2002

## 24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (c) Acquisition of a subsidiary (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2002 HK\$
Cash consideration	(607,477)
Cash and bank balances acquired	829,391
<b>Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary</b>	<b>221,914</b>

On 31st October 2001, the Group acquired a 52% interest in Xi'an Giahe. Xi'an Giahe is engaged in information network development and software development and sales. The consideration was in the form of cash and paid at the acquisition date.

Xi'an Giahe had no significant impact in respect of the Group's cash flows and results for the year ended 30th June 2002.

## 25. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a facility granted to Well Pacific Investments Limited, an investee company of a shareholder of the Company. The facility had been utilised to the extent of approximately HK\$9.9 million at 30th June 2002. The pledge has not been released up to the date of approval of these financial statements. The intended purpose of the pledged deposit was to secure future revenue referrals to the Group by the company.

## 26. OPERATING LEASE ARRANGEMENTS

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

	GROUP	
	2002 HK\$	2001 HK\$
Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable:		
Within one year	1,619,779	1,651,417
In the second to fifth years, inclusive	1,495,033	3,042,193
	<b>3,114,812</b>	4,693,610

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

## > notes to the financial statements

30th June 2002

### 27. TRANSACTIONS WITH A SHAREHOLDER

During the year, the Group had the following transactions with a shareholder of the Company who owned approximately 3.45% of the Company's issued capital at the balance sheet date and has not appointed any representative in the board of directors of the Company.

	Notes	GROUP	
		2002 HK\$	2001 HK\$
Sales of product to a subsidiary of a shareholder	(i)	1,680,000	—
Deposit paid to a subsidiary of a shareholder	(ii)	2,000,000	—
Advances to a subsidiary of a shareholder	(iii)	8,000,000	—
Advance to a director of a shareholder	(iv)	5,000,000	—

Notes:

- (i) The directors consider that the sales to a subsidiary of a shareholder were made on basis determined by both parties.
- (ii) The deposit was paid to a subsidiary of a shareholder to secure broadband availability for a proposed project with a property developer. The deposit was refunded subsequent to the balance sheet date in September 2002. Subsequent to the balance sheet date, in July 2002, the Group made another deposit of HK\$3,000,000 to the said company to secure broadband availability. In September 2002, HK\$1,500,000 of the deposit was refunded to the Group.
- (iii) The advances to a subsidiary of a shareholder were unsecured, interest-bearing at 12% per annum and were fully settled during the year.
- (iv) The advance to an executive director of a corporate shareholder, was unsecured, interest-bearing at 8% per annum and was fully settled subsequent to the balance sheet date. The advance receivable from this individual was included in prepayments, deposits and other receivables at 30th June 2002.

### 28. 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 prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8th October 2002.