

hongkong.com
hongkong.com Corporation
[incorporated in the Cayman Islands with limited liability]

hongkong.com

A N N U A L
R E P O R T 2 0 0 2



hongkong.com Corporation
(GEM Stock 8006)
is a chinadotcom company
(NASDAQ: CHINA)

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

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

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

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

The Stock Exchange takes no responsibility for the contents of this 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 the contents of this annual report.

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

C O N T E N T S

- 01. Corporate Information
- 02. Financial Highlights
- 03. Board of Directors
- 05. Chairman's Statement
- 06. Management Discussion and Analysis
- 12. Comparison of Business Objectives with Actual Business Progress
- 14. Use of Proceeds
- 15. Report of the Directors
- 24. Report of the Auditors
- 25. Consolidated Profit and Loss Account
- 26. Consolidated Balance Sheet
- 27. Consolidated Statement of Changes in Equity
- 29. Consolidated Cash Flow Statement
- 31. Balance Sheet
- 32. Notes to Financial Statements
- 66. Notice of Annual General Meeting

BOARD OF DIRECTORS

Executive directors

Ch'ien Kuo Fung, Raymond (*Chairman*)
Yip Hak Yung, Peter (*Vice-Chairman*)
Zhou Shun Ao (*Vice-Chairman*)
Chan Kai Yu, Rudy (*Chief Executive Officer*)
Kwok Yee Leen, Elaine

Non-executive director

Chan Wing Tak, Douglas

Independent non-executive directors

Chou Kei Fong, Silas
Wong Sin Just
Wang Cheung Yue, Fred

COMPANY SECRETARY

Kwok Yee Leen, Elaine, *AICPA, AHKSA*

QUALIFIED ACCOUNTANT

Chan Wai Sze, Francis, *ACCA, AHKSA*

COMPLIANCE OFFICER

Kwok Yee Leen, Elaine, *AICPA, AHKSA*

AUDIT COMMITTEE

Wong Sin Just (*Committee Chairman*)
Yip Hak Yung, Peter
Chou Kei Fong, Silas
Wang Cheung Yue, Fred

AUTHORIZED REPRESENTATIVES

Chan Kai Yu, Rudy
Kwok Yee Leen, Elaine

REGISTERED OFFICE

Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

34/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

AUDITORS

Ernst & Young
15/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Citibank N.A.
Fortis Bank

STOCK CODE

8006

WEBSITE ADDRESS

www.corp.hongkong.com

RESULTS

	2002 HK\$'000	Period/year ended 31st December			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	54,595	86,526	79,498	13,113	611
Net profit/(loss) from ordinary activities attributable to shareholders	27,139	28,441	4,419	(21,778)	(3,448)

ASSETS AND LIABILITIES

	2002 HK\$'000	As at 31st December		
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Assets	2,146,832	1,589,098	1,291,652	34,329
Liabilities	(808,090)	(292,435)	(44,268)	(59,554)
Minority interests	(5,640)	(5,873)	–	–
Net assets/(liabilities)	1,333,102	1,290,790	1,247,384	(25,225)

KEY FINANCIAL DATA

	2002 HK cent	Year ended 31st December		
		2001 HK cent	2000 HK cent	1999 HK cent
Earnings/(loss) per share	0.66	0.69	0.11	(0.65)
Net assets/(liabilities) per share	32.27	31.24	31.54	(0.75)

Note: The results of hongkong.com Corporation (the "Company") together with its subsidiaries (the "Group") for the period ended 31st December, 1998 and for the years ended 31st December, 1999, 2000 and 2001 respectively are extracted from the Company's annual report 2001.



EXECUTIVE DIRECTORS

Ch'ien Kuo Fung, Raymond (Chairman, aged 51)

Dr. Ch'ien was appointed to the Board on 25th November, 1999. He is Executive Chairman of chinadotcom corporation, and non-executive Chairman of HSBC Private Equity (Asia) Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inmarsat Ventures plc, Inchcape plc., Convenience Retail Asia Limited, MTR Corporation Limited, Vtech Holdings Limited and The Wharf (Holdings) Limited. Dr. Ch'ien is Chairman of the Hong Kong/Japan Business Co-operation Committee; Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption; and an honorary President and Past Chairman of the Federation of Hong Kong Industries. He is also President of Hong Chi Association, Hong Kong's leading non-government organization helping mentally handicapped persons. In 1992, he was appointed a member of the Executive Council of Hong Kong, then under British Administration. In July 1997, Dr. Ch'ien was appointed a member of the Executive Council of the Hong Kong SAR and served until July 2002. Dr. Ch'ien received a doctorate in Economics from the University of Pennsylvania. He was appointed Justice of the Peace in 1993 and Commander in the Most Excellent Order of the British Empire in 1994, and was awarded the Gold Bauhinia Star medal in 1999.

Yip Hak Yung, Peter (Vice-Chairman, aged 50)

Mr. Yip was appointed to the Board on 15th October, 1999. He is also director and Chief Executive Officer of chinadotcom corporation. Mr. Yip has international experience as an entrepreneur in the media and telecommunications industries and was the main force in listing chinadotcom corporation, Asia's first Internet company on NASDAQ (NASDAQ : CHINA). He received his MBA from Wharton School and M.S.E.E. and B.S.E.E. from University of Pennsylvania.

Zhou Shun Ao (Vice-Chairman, aged 54)

Mr. Zhou was appointed to the Board on 7th December, 1999. He is also a director of chinadotcom corporation. He has extensive media experience across China and has spent more than 30 years with Xinhua News Agency, rising to Deputy Director of Xinhua Development and Planning Bureau and General Manager of China Media Development Corporation, President of China Global Public Relations Company, Executive Deputy General Manager of Xinhua News Agency as well as General Manager of Asia-Pacific Regional Bureau of Xinhua News Agency.

Chan Kai Yu, Rudy (Chief Executive Officer, aged 41)

Mr. Chan was appointed to the Board on 3rd February, 2000. He is responsible for overall management and operations of the Group. He has extensive experience in the media industry having spent 8 years in Time Inc., Asia and rising to Managing Director for Asia. He was the first Chinese and the youngest ever to achieve that post. As an entrepreneur, Mr. Chan co-founded Hong Kong operations of a global computerized barter trade exchange network. He is a Certified Public Accountant registered with the State of New York and has an MBA from Wharton School, University of Pennsylvania.

Kwok Yee Leen, Elaine (aged 40)

Ms. Kwok was appointed to the Board on 30th January, 2003. She is also the Company Secretary and the Compliance Officer of the Company. She is currently Financial Controller of chinadotcom corporation. Ms. Kwok was previously the Financial Controller and Company Secretary of one of the top Venture Capital firms specialising in technology companies. She is a member of the American Institute of Certified Public Accountants and the Hong Kong Society of Accountants.



NON-EXECUTIVE DIRECTOR

Chan Wing Tak, Douglas (aged 53)

Mr. Chan was appointed to the Board on 25th November, 1999. He is a veteran industrialist and Managing Director of New World Infrastructure, the first infrastructure company listed on the Hong Kong Stock Exchange; Executive Director of New World China Land, one of the mainland's largest property developers; and Deputy Chairman of Pacific Ports Company Limited, a major PRC port operator. All are listed on Hong Kong's Main Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chou Kei Fong, Silas (aged 56)

Mr. Chou was appointed to the Board on 25th November, 1999. He is a Director of Novel Holdings (BVI) Limited and Novel Enterprises Limited, a vertically integrated textile and apparel manufacturer. Mr. Chou is Co-Chairman of Tommy Hilfiger Corporation, a leading sportswear design and marketing company listed on the New York Stock Exchange in the US and Chairman of Novel Denim Holdings Limited, a manufacturer of denim and chino garments and fabric, listed on the US NASDAQ National Market. Besides, Mr. Chou has since July 2000 served as Co-Chairman of Asprey & Garrard Limited, a designer and manufacturer of luxury goods in London and the British Crown Jeweller.

Wong Sin Just (aged 37)

Mr. Wong was appointed to the Board on 25th November, 1999. Mr. Wong possesses over 11 years of investment banking and finance experience and has held positions with a number of premier international investment banks. Prior to establishing e2-Capital Limited (subsequently renamed as OpenIBN (HK) Limited), Mr. Wong was the Managing Director and the Head of Equity Capital Markets

at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering from Imperial College, University of London and is a member of the Association of Chartered Accountants, England and Wales. Mr. Wong is Executive Co-Chairman and Acting Chief Executive Officer of E2-Capital (Holdings) Limited, Executive Director and Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of Capital Strategic Investment Limited.

Wang Cheung Yue, Fred (aged 59)

Mr. Wang was appointed to the Board on 11th February, 2002. The Wang family found Salon Films (Hong Kong) Limited in 1969. Mr. Wang has been a director of Salon since 1970. With over 30 years of film production experience, Mr. Wang has worked with various major Hollywood film and television companies in setting up projects in Asia, including Hawaii Five-O, Shogun, Noble House, etc. Since 1985, Mr. Wang has been involved with various investment groups including Unifund S.A., a prominent investment fund company based in Geneva, the Anglo Chinese Group in Hong Kong, and the Pan Asia Development Corporation. Mr. Wang is a member of the Hong Kong Trade Development Council Media and Communications Services Advisory Committee and an advisor of the China Film Foundation expert committee.

CHAIRMAN'S STATEMENT

Given global political uncertainties and difficult economic conditions, 2002 was challenging for many in business, including hongkong.com. Nonetheless, we ended the year with a higher cash level than when we started and we were profitable.

I would like to share with you a few highlights of our performance in 2002:

- We made a net ordinary profit attributable to shareholders of HK\$27,139,000, compared to HK\$28,441,000 in 2001;
- The Group's net cash and investment in interest-bearing securities was HK\$1.3 billion by year end;
- Travel Trade Gazette Asia continued to be profitable, in a market environment punctuated by bad news;
- Progress was made by Times Software, through the introduction of several proprietary travel-related information technology products to the mainland market;
- We gained good initial traction in launching a paid e-mail service with subscription take-ups beating expectations.

Our company has not been content sitting on its cash pile. Last year, we looked at about 50 investment opportunities in entertainment, education, media content management and network system integration across the Asia Pacific region. We were aggressive in looking but also disciplined in applying investment criteria that we think will serve the long term financial interest of the company. We will continue to pursue investment opportunities that can be earnings accretive, possess sound business models that are synergistic with our current portfolio and which allow us to leverage our online capabilities. Patience and astute prudence are strengths in the present climate, which will help us to create long term shareholder value.

China is widely recognised as the world's most dynamic economy today. hongkong.com will partake in the growth of this market. Our focus will be on businesses that require much creative work, such as mobile services, online games and entertainment media. Looking forward, 2003 will be a year of breaking new horizons for hongkong.com geographically and in creative industries. Our team of talented people will grow in number and diversity and we expect our portfolio of businesses to grow in size, coherence and profit potential.

Dr. Ch'ien Kuo Fung, Raymond
Chairman

12th February, 2003

FINANCIAL REVIEW

Turnover and gross profit

The Group continued to be profitable this year, as it has been since its listing on GEM on 9th March, 2000. A turnover of HK\$54,595,000 was recorded for the year ended 31st December, 2002, representing a 37% decrease as compared with last year. Such decline was primarily due to the termination of the Support Services Agreement with China Internet Corporation Limited in respect of the AOL Hong Kong service from July 2001. In addition, the continuing weakness of the online advertising market and the lack of large event organising activities in the first quarter of 2002 from TTG Asia also contributed to the decrease in turnover. On the other hand, gross profit margin improved slightly to 45% this year (2001: gross profit margin 43%) as a result of the termination of the lower margin AOL Hong Kong service.

Other revenue

Other revenue fell by 35% to HK\$62,999,000 for the year ended 31st December, 2002 (2001: HK\$96,420,000). The reduction was primarily caused by a loss of HK\$16,137,000 recorded on disposal of debt securities in 2002 as compared with a gain of HK\$16,017,000 in 2001. Of the loss recorded this year, HK\$12,359,000 had been fully provided for and charged to the investment revaluation reserve account in 2001. If adjusted for this effect, the profit from operating activities for 2002 would have been HK\$45,573,000.

Selling and administrative expenses

Operating expenses decreased by 27% to HK\$54,602,000 in 2002 (2001: HK\$75,097,000), primarily as a result of continuing tight cost management but also due to a substantial reduction in legal fees of HK\$8,161,000, which was largely related to merger and acquisition activities.

Other operating expenses

No goodwill impairment was made during the year. Moreover, the company successfully collected on certain accounts receivable and investment deposits paid which were previously provided for as bad debts. As a result of these activities, operating expenses fell sharply during 2002.

Net profit from ordinary activities attributable to shareholders

Net profit from ordinary activities attributable to shareholders fell slightly to HK\$27,139,000 in 2002 (2001: HK\$28,441,000).

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK\$1,333,102,000 shareholders' funds as at 31st December, 2002 (31st December, 2001: HK\$1,290,790,000). Total assets amounted to HK\$2,146,832,000 as at 31st December, 2002 (31st December, 2001: HK\$1,589,098,000), of which HK\$118,709,000 was cash and bank balances (31st December, 2001: HK\$25,875,000) and HK\$1,970,648,000 was interest-bearing debt securities (31st December, 2001: HK\$1,465,763,000).

Capital structure

Except for the increase in the Group's bank borrowings by HK\$515,873,000 to HK\$780,293,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2002 as compared with that as at 31st December, 2001.

As at 31st December, 2002, the Group's bank borrowing of HK\$748,801,000 was repayable within one year, and the remaining HK\$31,492,000 was payable within three years. All the bank borrowings are denominated in United States Dollars.

Charges on group assets

As at 31st December, 2002, an amount of HK\$944,206,000 (2001: HK\$312,897,000) of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK\$780,293,000 (2001: HK\$264,420,000). Neither time deposits nor bank balances (2001: time deposit of HK\$480,000) were pledged to banks as guarantees to certain suppliers of the Group.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was 59% as at 31st December, 2002 (2001: 20%). The change was due to the increase in bank borrowings of HK\$515,873,000, and a corresponding increase in interest-bearing securities of HK\$504,885,000.

The Group's net cash and investments in interest-bearing securities was HK\$1,309,064,000 (2001: HK\$1,227,218,000), composing of cash and cash equivalents of HK\$118,709,000 (2001: HK\$25,875,000), interest-bearing debt securities of HK\$1,970,648,000 (2001: HK\$1,465,763,000) and interest-bearing bank borrowings of HK\$780,293,000 (2001: HK\$264,420,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2002, no related hedges were made by the Group.

Contingent liabilities

Details of contingent liabilities were the same as that disclosed in the Company's annual report for the year ended 31st December, 2002.

Segmental information

The drop in turnover from portal advertising, content and internet service provision and travel-related services was mainly attributed to the loss in turnover from the termination of the Support Services Agreement with CIC in respect of the AOL Hong Kong service from July 2001, continued weakness in online advertising market and lack of event organising activities from TTG Asia. The decline was offset by the new revenue source from the production and sale of hardware and software.

As a result of the Group's continuous cost effective manner in managing the business, the segmental loss for portal advertising and content and internet service provision, and travel-related services were reduced.

Material acquisitions and disposals of subsidiaries and affiliated companies

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the year.

Employee information

As at 31st December, 2002, the Group has 88 full-time employees of which 36 are based in Hong Kong and the rest are in China, Taiwan and Singapore. The Company has introduced share option schemes to recognise the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

BUSINESS REVIEW

Overall

In 2002, the global economy remained within the shadow of the uncertainties arising from both the political and the economic arena. Despite the continued economic downturn, the Group managed to focus on its core operations as well as to proactively look at the opportunities in the China market, a market that continues to show solid growth, with 8% GDP growth last year, demonstrating the tremendous opportunities in this region.

Portal

The online advertising market in Hong Kong followed a consistent trend throughout 2002, remaining slow and selective. Amidst pessimistic market sentiment, the Group continued to diversify its business focus in multiple areas to stimulate revenue growth, sustain pageview and attract new users. Complimentary to the target of providing a prime advertising medium for customers, the Group further developed innovative ideas geared towards enhancing results for advertisers, as well as initiatives such as the ongoing deployment of services based e-commerce offerings and the development of products and services which can monetise the Group's large user base, all executed through the launch and re-launch of many interactive subscriber channels.

During the year, amidst the slowdown in the online advertising market, the Group continued its endeavor to attract advertising customers and further extended its client reach by successfully launching campaigns with customers from all major industries. The Group successfully launched campaigns with:

<i>Telecommunications</i>	PCCW, Now.com.hk, Netvigator, Hutchison Telecommunications, Sony So-Net, iCare, Pacific OneNet
<i>Consumer Electronics</i>	IBM, Samsung Mobile, Nikon, Epson, Nokia Club, Aiwa
<i>FMCG</i>	Moët Hennessy, P&G, SKII, Maltesers, Clean & Clear, Coca-Cola, Borodrink, Campbell's Soup Asia, Nissin Foods, Guinness, Acuvue, Macy's Candies
<i>Finance & Insurance</i>	Hang Seng Bank, HSBC, Wing Hang Bank, Citibank, ANZ Bank, Bupa, UA Finance, Core Pacific Group, Asia Financial Services
<i>Airlines</i>	Virgin Atlantic
<i>Clothing & Accessories</i>	FX Creation, Wacoal
<i>Cosmetics</i>	Crabtree & Evelyn
<i>Media</i>	Cable TV, AsiaNet, Warner Bros
<i>Automotive</i>	Mitsubishi
<i>Utilities</i>	CLP
<i>Education</i>	Wallstreet Institute, Open University of Hong Kong, Hong Kong Computer Institute, Informatics College
<i>Government</i>	Hong Kong Trade Development Council, Hong Kong Productivity Council, Taiwan Tourism Board, The British Council
<i>Convenience Retailing</i>	7 Eleven

Across different industries, the Group continued to drive customer acquisitions and deliver brand awareness to customers. The Group's ongoing efforts in delivering a prime advertising platform was further enhanced through the launch of two user-group oriented portals, 'Young' and 'Mature', to provide better focused content and resources, and at the same time delivering stronger and more relevant profiles to advertisers. Throughout the year, the Group demonstrated its ongoing commitment to partnerships by working closely with existing partners such as ANZ Bank and AsiaNet to further build upon the already successful brand marketing campaigns.

During the year, the Group launched 3 new channels. First, the Flower channel is an online florist providing a wide selection of floral arrangements and gifts, with the convenience of online purchase for worldwide delivery. Second, the Soccer channel, providing a comprehensive coverage of worldwide soccer news and results, which was further enhanced with the launch of the 2002 FIFA World Cup feature site, providing comprehensive coverage on teams, players, schedules and results. Third, the Digicity channel, providing a database of the latest consumer electronic products with a special mobile section to keep mobile users abreast of the latest mobile phone models, features and promotional offers. In addition to launching new channels, the Group also re-launched the eMatch and Club4U channels with a more user friendly interface and outlook so as to attract more users. Along with launches of seasonal campaigns such as those launched during Chinese New Year, Valentine's Day, Mother's Day, Halloween and Christmas, the Group continues to offer a comprehensive and engaging user experience.

The Group continued to provide value-added services to its users through the launch of several paid and free services. During the year, hongkong.com embarked on a major effort to monetise its large user base, becoming the first portal in Hong Kong to provide paid email services with value-added features and additional storage to the Internet community. The paid mail service has continued to gain traction since its launch, reaching both consumers and business users with its competitive offers, stable platform and a host of facilities such as anti-virus and anti-spam capability, complimenting to the unique name and home-grown nature that is hongkong.com. Beyond the consumer market, the Group continued its commitment to develop new products and services to serve the business community by forming a partnership with Hong Kong Trade Development Council (TDC) to provide local small and medium enterprises (SMEs) with a SMS (Short Message Service) service platform for the Greater China Region. Augmented with the ever-increasing portfolio of SMS services through the SMS Centre, such developments compliment the well-established web-to-mobile short messaging service that allows users to send short messages to any mobile phone regardless of the recipient's subscribed network. In addition to these services, the Group continued to innovate and expand its portfolio of subscription services through the launch and relaunch of the following:

- DIY Newsletter – a subscription based email newsletter service, allowing customers to build and distribute their own newsletters to their respective members and communities
- DotFunCity – an online prepaid card facility that allows users to enjoy safe and secure online shopping
- Web-Hosting – providing ISP independent hosting facilities for both consumers and business users
- ELearning – offering certified online courses to assist users in improving their skills with Chinese input
- Financial News – financial information and stock analysis from Quamnet
- Long Long Win – a comprehensive horse racing portal
- EmatchPhone – an Interactive Voice Response System (“IVRS”) service allowing users to record messages to share with each other
- Webcarhire – providing Worldwide online car hire services
- Handyman – an online virtual storage and offline physical data backup service
- PriceLine – an online travel reservation service
- Visa – the preferred payment card and as a partner in the development of future e-commerce products and services

Further to these paid services, the Group continued to expand both its portal content and services as well as a variety of community offerings, through the launch of an online Directory service, a feature site for a famous Canadian cartoon character Stickgirl, offering entertaining content, e-cards and souvenirs and continue to support community programmes with the sponsorship of the inaugural Duckrace program, in partnership with Po Leung Kuk, to raise funds for the welfare of the children of Po Leung Kuk.

Travel

Despite the continued challenging economic environment shrouding the travel industry since 2001, which was further compounded by the regional instabilities following the Bali tragedy, the Group's travel arm continued to perform to expectations.

TTG Asia, the leading travel publisher and exhibition organiser in Asia, continued to demonstrate its leadership position and sustained profitability. The ongoing efforts in its existing business and the continued developments of TTG TravelHub.Net, leveraging the Group's online capabilities to diversify its traditional offline business to online, continued to gain momentum.

The exhibition division has made significant contributions to the bottom line with the organisation of several key industry events during the year. TTG Asia successfully concluded the 10th Incentive Travel & Conventions, Meetings Asia ("IT&CMA"), held in Thailand at the end of October. The IT&CMA is one of the largest and most rewarding Meeting Incentive Conference Exhibitions ("MICE"), bringing together exhibitors and buyers from around the world. In addition, TTG Asia continued to demonstrate its leadership position with key appointments as event organisers during the quarter, including DM Asia 2002, The Corporate Travel World 2002 (CTW), and as the official publication for TIME 2002.

TTG Asia was also appointed by the ASEAN Tourism Forum (ATF), as the official publisher for the daily newspaper during ATF 2002 in Yogyakarta, Indonesia. The dailies were read by some 1,500 travel trade delegates attending this prestigious trade event in January 2002. In addition, TTG Asia's tourism group were appointed the official publication/official daily for several major trade events including TIME 2002, an event endorsed by the Indonesia Tourism Promotion Board and is the only domestic travel show targeting at Indonesia travel suppliers/sellers and International travel buyers, Hotel Investment Conference Asia Pacific (HICAP) 2002, a conference targeting hotel investors, financiers and leading industry professionals in Asia, International Travel Fair ("ITF") 2002, targeting the trade and consumers, organised by Taiwan Visitors Association, PATA Annual Conference 2003, the premier annual gathering of the Pacific Asia Travel and Tourism Industry with delegates and members representing government tourism bodies, airlines and industry firms and for the Singapore Fashion Festival 2002, which appointed TTG Asia as the Official Travel Publisher, producing the official guide on behalf of Singapore Retailers Association, distributing 80,000 copies island-wide targeting at consumers and tourists visiting Singapore. This is the second year of the festival and the first time TTG Asia was appointed an Official Travel Publisher for the event. TTG Asia's leadership position in the industry was further cemented through the award by The Ministry of Tourism, Cambodia to manage the ASEAN Tourism Forum 2003, on their behalf.

In November 2002, TTG Asia successfully launched Business Travel News China (BTN China) pilot issue during China International Travel Mart (CITM) in Shanghai. With a circulation of 19,800 copies, BTN China is targeted at corporate travel managers and corporate travel agencies in Mainland China. This is the first and only corporate travel publication to serve Mainland China's growing corporate travel market. Regular issues of BTN China will commence from March 2003 on a bi-monthly frequency.

In further recognition of TTG Asia's achievements, TTG Asia's Group Editor was awarded the PATA Travel Journalism Award for 2002, with the Consulting Editor being awarded Gold Award Honorable Mention by Pacific Asia Travel Association ("PATA"), the recognised authority on Pacific Asia travel and tourism.

Times Software continued to make good progress in the development and selling of proprietary travel-related information technology products, with the completion of a Passenger Flow Analysis System ("PFAS") with integrated Decision Support Systems ("DSS")/Management Information Systems ("MIS") and a Mobile Ticketing System ("MTS") as part the transportation

network solutions. Through the ownership of such products, the Group aims to propagate such technology into other areas of online travel ticketing products and services across the region and is expected to have visibility of improved revenue in 2003.

In 2002, in order to streamline its online travel business, the Group will continue to focus its resources on the core businesses which offer strategic fit to the Group and may provide profits and investor returns in the long term. Looking forward, the Board and the Group are confident in its business and management and will proactively look for investment opportunities that complement to its existing business to bring the Group to the next level of success.

Outlook

The overall economic climate remained unfavorable during the year and the outlook for sustainability will continue to be challenging for companies in this sector in the short term.

However, the Group's financial position remains healthy, enabling the management to continue to build a long-term sustainable business. The Group will continue to monetise its established user base through the diversification of its online service portfolio, by seeking opportunities for new subscription based services.

Leveraging its strong and clean balance sheet, the Group will continue to seek investment opportunities which provide strategic fit to its existing core business and are able to extend its reach beyond Hong Kong. Continuing the momentum of the past year, the Group will continue to proactively engage in merger and acquisition activities in the areas of entertainment, education, travel and media. With a total of about HK\$119 million in cash and about HK\$2 billion invested in interest-bearing securities as at the end of December 2002, our sound capital reserves, coupled with declining valuations, will provide the Group with a definite edge in making the best of merger and acquisition opportunities.

As almost three years have elapsed since the Group listed on GEM (Growth Enterprise Market) in March 2000, the Group is poised for greater flexibility in developing and refining its business plan. The Group will continue to focus on the businesses and markets where it makes sense to the company, and provides favourable returns to the shareholders. However, the Group will also look to China for greater synergies and opportunities. China, with its accession to the WTO (World Trade Organisation) and the successful bids to host the 2008 Olympic games in Beijing and 2010 World Expo in Shanghai, will represent great business opportunities in the future.

Likewise, the Internet business in China has been growing at a rapid rate in the recent years. According to the CNNIC report, the number of Internet users in China will have reached 58 million by the end of 2002. The figure is encouraging and the ever-growing Internet base will lay the foundations for the Group's ongoing efforts to further explore opportunities in this arena, where the Group has already begun active pursuits in both the mobile short messaging service market and the online games platform. Online games, especially the Massive Multi-Player Online Role Playing Games (MMORPG), have been showing great interest by users. Players of this kind of online games are considered the "stickiest" and loyal users of a portal. The Group, leveraging the resources and expertise within the chinadotcom group, will continue to engage in active negotiations with industry players in Korea, Taiwan, and the U.S. and be well positioned to launch a game platform in the near future. The Group will continue to develop the foundations laid in the SMS market by pursuing market opportunities to reach a broader audience as the technology evolves from SMS through to Multimedia Messaging Services (MMS).

Looking forward, year 2003 is a year with tremendous opportunities as well as challenges lying ahead. The Group's healthy financial position and the experience gained in the past few years, coupled with the China momentum, will pave the way for transformation and evolution of the Company.

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2002

1. Continue to increase the depth of the content on hongkong.com

During the year ended 31st December, 2002, 3 new channels were launched. The new channels were:

Flower.hongkong.com – online florist providing a wide selection of floral arrangements and gifts

Soccer.hongkong.com – comprehensive coverage of worldwide soccer news and results

Digicity.hongkong.com – providing a database of the latest consumer electronic products and gadgets

In addition, hongkong.com enhanced and re-launched the portal and 1 channel. The re-launched portal and revamped channel included:

young.hongkong.com – a sub-portal targeting the interest of teens and youths.

mature.hongkong.com – a sub-portal targeting the over 25s user community.

worldcup.hongkong.com – providing comprehensive coverage on the teams, the players, the schedules and the results of the 2002 FIFA World Cup.

hongkong.com's channel based community services – were further enhanced. These included:

ematch.hongkong.com – a meeting point for fostering friendship with further enhanced premium membership based subscription services.

Club4U – an online community for members

Dotfuncity – an online micro-payment solution

2. Continue to establish an e-commerce presence in countries that offer opportunities for the Group

The Group continued to further establish its e-commerce offering in Hong Kong through Shop4U and channel based products and service offerings, to leverage the opportunities in the local market.

3. Offer up to an additional 2 product lines on the portal

As at 31st December, 2002, hongkong.com featured over 100 product lines, with over 30 new product lines offered during the year, spanning across consumer electronics, subscription services, computer and music software, sports and leisure packages and food and beverages.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2002

4. Continue to increase the features on the Group's websites to improve functionality and services for customers.

The Group continued to improve functionality and services for customers through the launch of 2 sub-portals, Post4U DIY newsletter service, web-hosting, Dotfuncity micro-payment solution and a value added email service.

5. Continue to explore and capitalise on strategic opportunities

hongkong.com's position as the leading portal in Hong Kong has allowed the Group to continue to explore and capitalise on strategic opportunities for the Group's portal and regional expansion activities. Deals were closed or renewed with CDWOW, GameAZ, Typhoon Games, Addmark, Priceline, HotelClub.net, Handyman, Quamnet, Webcarhire, Stickgirl and Thinking Group during the year, to broaden the Group's portal services by providing compact disc products, online interactive games, lifestyle related products, an online hotel booking engine, financial information data services and consumer electronic products respectively to our users. The other content, marketing and e-commerce partners which the Group works closely include Time/Fortune Magazine, CarNet.com, SHK Finance, Qtimes, DVDShelf, Photo-On-Net.com and Wiz-Q.

The Group continued to advance regional expansion strategy through e-travel service and cross-media activities by establishing a joint venture with Southeast Travel Service Company Limited in Taiwan to offer online and offline travel products and services, through investment in Times Software, an exclusive supplier of ticket control card and ticketing technology for China and through the launch of PowerHotel, the first hotel reservation solution in Greater China region, combining the features of both an online booking system and marketing tool platform.

6. Continue to provide services relating to the AOL Hong Kong service and the Netscape service to the CIC group according to its requirements

The Group completed its commitment to the AOL Hong Kong service and the Netscape service to the CIC group in June 2001 and September 2000 respectively.

The Group raised approximately HK\$1,384 million through the placing of shares upon the listing of the Company. After deducting related expenses, net proceeds were approximately HK\$1,314 million.

During the period from 9th March, 2000 (date of listing) to 31st December, 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

	As stated in the Prospectus (Note) HK\$ million	Actual HK\$ million
For the expansion of the Group's network infrastructure and computer equipment	131	14
For the purchase of software applications for network infrastructure and e-commerce activities	98	11
For marketing and advertising in Hong Kong	244	36
For marketing and advertising outside Hong Kong, including in Asia, North America and Europe	267	–
For future acquisitions of and investments in Internet related companies that are complementary to the Group's business	292	66
For the repayment of all loans extended by the chinadotcom group	55	58
For general working capital, including, but not limited to, paying expenses such as staff expenses and network operating expenses	136	265
	1,223	450

Note: The breakdown for the use of proceeds as stated in the Prospectus included the proceeds from the exercise of the over-allotment option and such proceeds are allocated evenly to the purposes as stated in the Prospectus.

The remaining net proceeds of HK\$864 million have been partly deposited in licensed banks in Hong Kong and partly invested in interest-bearing securities pending appropriate investments.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

The analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st December, 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31st December, 2002, and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 65.

The directors do not recommend the payment of any dividend in respect of the year.

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefore, are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights either 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st December, 2002, the Company's reserves available for distribution amounted to HK\$894,005,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers and suppliers accounted for less than 30% of the total sales and total purchases of the Group respectively for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

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

Executive Directors

Ch'ien Kuo Fung, Raymond (*Chairman*)

Yip Hak Yung, Peter (*Vice-Chairman*)

Zhou Shun Ao (*Vice-Chairman*)

Chan Kai Yu, Rudy (*Chief Executive Officer*)

Kwok Yee Leen, Elaine (appointed on 30th January, 2003)

Lin, Jack (resigned on 30th January, 2003)

Hamilton, Peter John (resigned on 11th February, 2002)

Hung Shuk Tak, Vicky (resigned on 30th January, 2003)

Non-Executive Directors

Chan Wing Tak, Douglas

Edelson, Harry (resigned on 5th February, 2002)

Independent Non-Executive Directors

Chou Kei Fong, Silas

Wong Sin Just

Wang Cheung Yue, Fred (appointed on 11th February, 2002)

In accordance with articles 99 and 116 of the Company's articles of association, Ms. Kwok Yee Leen, Elaine and Messrs. Zhou Shun Ao, Chan Kai Yu, Rudy and Chan Wing Tak, Douglas will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each non-executive director was disclosed under the Prospectus as expiring on 31st December, 2001. During the year ended 31st December, 2001, the Board resolved that each non-executive director should retire from office subject to rotational retirement provisions in accordance with the Company's articles of association.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company. Save for the service agreements with Messrs. Zhou Shun Ao, Chan Kai Yu, Rudy, Lin, Jack and Kwok Yee Leen, Elaine, all the service agreements are for an initial term of two years commencing 25th November, 1999, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice. As at 31st December, 2002, none of these service contracts had been terminated by either party.

Each of Messrs. Zhou Shun Ao and Chan Kai Yu, Rudy, both entered into service agreements with the Company for an initial term of two years commencing 7th December, 1999 and 3rd February, 2000, respectively, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice. As at 31st December, 2002, none of these service contracts had been terminated by either party.

REPORT OF THE DIRECTORS

Mr. Lin, Jack entered into service agreement with the Company for an initial term of two years commencing 12th December, 2000, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice.

Ms. Kwok Yee Leen, Elaine entered into service agreement with the Company for an initial term of two years commencing 30th January, 2003, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice.

During the year ended 31st December, 2001, the Board resolved that following the initial two years' set term of office of the executive directors, each executive director should retire from office subject to rotational retirement provisions in accordance with the Company's articles of association and each of the executive directors of the Company accepted such variation in their respective service agreements.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and their associates in the securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Ordinary shares in the Company:

Name of director	Number of shares held and nature of interests		
	Personal interests (number of shares)	Corporate interests (number of shares)	Total interests (number of shares)
Ch'ien Kuo Fung, Raymond	2,274,000	–	2,274,000
Chan Kai Yu, Rudy	3,416,000	–	3,416,000
Chan Wing Tak, Douglas	3,416,000	–	3,416,000
Hung Shuk Tak, Vicky	1,416,000	–	1,416,000
Wong Sin Just	1,000,000	–	1,000,000
Yip Hak Yung, Peter	–	3,416,000 (Note)	3,416,000
Zhou Shun Ao	5,000,000	–	5,000,000

Note: These shares were beneficially owned by Asia Internet Holdings Limited in which Mr. Yip Hak Yung, Peter, is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings under the SDI Ordinance.

- (b) Class A common shares in chinadotcom corporation which is, according to the SDI Ordinance, an associated corporation of the Company:

Name of director	Number of shares held and nature of interest			
	Personal interests (number of shares)	Family interests (number of shares)	Corporate interests (number of shares)	Total interests (number of shares)
Ch'ien Kuo Fung, Raymond	721,773	–	–	721,773
Hung Shuk Tak, Vicky	52,012	–	–	52,012
Yip Hak Yung, Peter	–	442,219	11,835,686 (Note)	12,277,905
Zhou Shun Ao	17,794	–	–	17,794

Note: These shares were beneficially owned by Asia Pacific Online Limited in which Mr. Yip Hak Yung, Peter, is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings under the SDI Ordinance.

Save as disclosed in sub-sections (a) and (b) above, none of the Company's directors, chief executive and their associates had any family, corporate or other interests in the share capital of the Company and chinadotcom corporation as recorded in the register as at 31st December, 2002 maintained under Section 29 of the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Options to subscribe for ordinary shares in the Company:

Details of the options to subscribe for ordinary shares in the Company are set out in note 23 to the financial statements.

(d) Options to subscribe for Class A common shares in chinadotcom corporation:

Name of director	Date of grant	Exercise price US\$	Option exercise period	Balance as at 1st January, 2002	Number of share options		Number of share options outstanding as at 31st December, 2002
					Granted during the period	Exercised during the period	
Ch'ien Kuo Fung, Raymond	22/6/1999	3.3750	Note (1)	66,667	-	-	66,667
	17/10/2000	6.8125	Note (3)	100,000	-	-	100,000
	9/1/2001	4.2813	Note (2)	30,000	-	-	30,000
	27/4/2001	2.7400	Note (3)	400,000	-	-	400,000
	13/7/2001	2.9700	Note (3)	400,000	-	-	400,000
Chan Kai Yu, Rudy	15/11/1999	14.5000	Note (4)	38,000	-	-	38,000
	15/4/2000	14.2375	25/2/2001 – 14/4/2005	4,500	-	-	4,500
	29/7/2000	15.7500	Note (5)	4,500	-	-	4,500
	17/10/2000	6.8125	25/11/2000 – 14/11/2009	8,265	-	-	8,265
	11/7/2001	2.3810	Note (3)	80,000	-	10,000	70,000
Chan Wing Tak, Douglas	22/6/1999	3.3750	Note (1)	40,000	-	-	40,000
	9/1/2001	4.2813	Note (2)	30,000	-	-	30,000
	12/7/2001	2.5800	Note (2)	50,000	-	-	50,000
Hung Shuk Tak, Vicky	22/6/1999	3.3750	Note (1)	640,000	-	-	640,000
	9/1/2001	4.2813	Note (3)	20,000	-	-	20,000
	5/11/2001	2.0400	Note (3)	38,000	-	14,250	23,750

Name of director	Date of grant	Exercise price US\$	Option exercise period	Balance as at 1st January, 2002	Number of share options		Number of share options outstanding as at 31st December, 2002
					Granted during the period	Exercised during the period	
Lin, Jack	15/4/2000	14.2375	15/4/2001 – 14/4/2005	9,000	-	-	9,000
	17/4/2000	16.7500	Note (1)	36,000	-	-	36,000
	29/7/2000	15.7500	Note (6)	9,000	-	-	9,000
	17/10/2000	6.8125	17/4/2001 – 16/10/2010	11,919	-	-	11,919
	17/10/2000	6.8125	17/7/2001 – 16/10/2010	100,000	-	-	100,000
	9/1/2001	4.2813	Note (6)	100,000	-	-	100,000
	11/7/2001	2.3810	Note (3)	140,000	-	-	140,000
Yip Hak Yung, Peter	22/6/1999	3.3750	Note (1)	60,000	-	-	60,000
	12/7/1999	5.0000	Note (1)	1,881,442*	-	-	1,881,442*
	9/1/2001	4.2813	Note (2)	30,000	-	-	30,000
	6/6/2002	2.8200	Note (2)		200,000	-	200,000
Zhou Shun Ao	22/6/1999	3.3750	Note (1)	120,000*	-	-	120,000*
	15/4/2000	14.2375	15/1/2001 – 14/4/2005	9,000	-	-	9,000
	29/7/2000	15.7500	Note (7)	9,000	-	-	9,000
	20/10/2000	8.1250	Note (3)	60,000	-	-	60,000
	9/1/2001	4.2813	Note (2)	30,000	-	-	30,000

Notes:

- (1) One year after the date of grant to the year ending 10 years after the grant date.
- (2) From the date of grant to the year ending 10 years after that date.
- (3) Three months after the date of grant to the year ending 10 years after the grant date.
- (4) From 25th November, 2000 to the year ending 10 years after the grant date.
- (5) From 25th February, 2001 to the year ending 10 years after the grant date.
- (6) From 17th July, 2001 to the year ending 10 years after the grant date.
- (7) Six months after the date of grant to the year ending 10 years after the grant date.
- (8) No option lapsed during the year ended 31st December, 2002.

* These options were granted to companies in which the relevant directors are deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power at general meetings under the SDI Ordinance. Mr. Yip Hak Yung, Peter, holds the share options through Asia Pacific Online Limited, and Mr. Zhou Shun Ao holds the share options through Golden Tripod Technology Limited.

Save as disclosed in sub-sections (c) and (d) above, at no time during the year was the Company or any of its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouse or children under 18 years of age, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEMES

Details of share option schemes are set out in note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

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

Name	Number of shares	Percentage of issued share capital
chinadotcom corporation	3,361,828,000	81.37%

Saved as disclosed above, no person, other than the directors, chief executive and their associates of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests in Securities" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

INTEREST OF SPONSOR

Two employees of BNP Paribas Peregrine Capital Limited ("BNP Paribas") held a total of 4,000 shares in the Company as at 31st December, 2002. Save as disclosed herein, the Company's sponsor, BNP Paribas, their respective directors, employees and associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rule), as at 31st December, 2002, did not have any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

The Sponsors' Agreement with BNP Paribas Peregrine Capital Limited dated 9th March, 2000 (the "Agreement") expired on 31st December, 2002 pursuant to the Agreement and in accordance with Rule 6.01 of the GEM Listing Rules.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group.

CONNECTED TRANSACTIONS

Waivers

The following non-exempt continuing connected transaction has been granted waiver by the Stock Exchange at the time of listing of the Company in the strict compliance with the announcement requirements set out in Rule 20.35 and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules:

Pursuant to a non-exclusive network affiliation agreement entered into between 24/7 Media Asia Limited (now known as Mezzo Marketing Limited) ("Mezzo"), a fellow subsidiary of the Company, and hongkong.com Limited ("HKCL"), a wholly owned subsidiary of the Company, dated 22nd February, 2000 (the "Agreement"), HKCL has agreed to become a member of the Mezzo network of websites and has granted Mezzo the right to sell advertising on hongkong.com to third parties. Under the Agreement, Mezzo is entitled to retain a commission of 30 per cent of all fees generated by Mezzo from the sale of such advertising (determined by the number of impressions delivered each month) and HKCL is entitled to the balance of such fees. The Agreement continues in effect until 31st December, 2003 unless terminated by either party on four months' written notice. The annual fee receivable by HKCL under the Agreement was HK\$245,459 in 2002 and this amount did not exceed the annual cap of HK\$77,000,000 for this connected transaction for the purposes of the waiver application. At the end of July 2002, Mezzo, without notice, ceased providing all or substantially all of the services it was obliged to provide under the Agreement. Due to the lack of any reasonable response to our inquiries, we deemed this to have been a breach of contract sufficient to relieve us of contractual obligations for payment thereafter.

All the other non-exempt continuing connected transactions which have also been granted waivers by the Stock Exchange at the time of the listing of the Company in strict compliance with the announcement requirements set out in Rule 20.35 and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules, but which have not been set out above, have not recorded any actual amounts for the year ended 31st December, 2002.

Pursuant to the waiver granted by the Stock Exchange, the above connected transactions have been reviewed by the independent non-executive directors and were, in their opinion, entered into by the Group: (a) in the ordinary and usual course of the Group's business; (b) on normal commercial terms; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole.

Non-exempt continuing connected transactions entered into after the listing of the Company

On 22nd February, 2000, HKCL entered into an agreement with Mezzo whereby HKCL agreed to, at its discretion, elect Mezzo to serve promotional or barter advertisement attained by HKCL on www.hongkong.com. On 1st January, 2001, HKCL and Mezzo entered into a supplemental agreement to supplement the said agreement so that, commencing from 1st January, 2001, HKCL shall pay Mezzo a fixed monthly fee of HK\$80,000 (the "Advertising Service Fees") in consideration of their provision of the said service until the expiry of the said agreement on 31st December, 2003. The Advertising Service Fees payable by HKCL to Mezzo in respect of the said services amounted to HK\$560,000 in 2002. Details of the connected transactions were disclosed in the circular dated 6th April, 2001 of the Company. At the end of July 2002, Mezzo, without notice, ceased providing substantially all of the services it was obliged to provide under the said agreement. Due to the lack of any reasonable response to our inquiries, we deemed this to have been a breach of contract sufficient to relieve us of contractual obligation for payment thereafter.

All the other non-exempt continuing connected transactions subject to the reporting and announcement requirements as set out in Rules 20.34 and 20.35 of the GEM Listing Rules but which have not been set out above, have not recorded any actual amounts for the year ended 31st December, 2002.

The directors of the Company, including the independent non-executive directors of the Company, consider that the above connected transactions were entered into in the interests of the Company, in its ordinary and usual course of business on normal commercial terms, and that the terms of the said supplemental agreement are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has four members comprising three independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Chou Kei Fong, Silas, Wang Cheung Yue, Fred, and one executive director, Mr. Yip Hak Yung, Peter. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met 4 times for reviewing and supervising the financial reporting process, the Company's annual report and financial statements, and providing advice and recommendations to the Board.

CHANGE OF COMPLIANCE OFFICER

Ms. Kwok Yee Leen, Elaine has taken over Mr. Jack Lin's role as the compliance officer of the Company as from her date of appointment as an Executive Director of the Company effective from 30th January, 2003.

CHANGE OF COMPANY SECRETARY, AUTHORIZED REPRESENTATIVE AND QUALIFIED ACCOUNTANT

Mr. Mak Tak Cheong, Edmund resigned as the company secretary, authorized representative and qualified accountant of the Company. Ms. Kwok Yee Leen, Elaine was appointed as the company secretary and authorized representative of the Company, and Mr. Chan Wai Sze, Francis was appointed as the qualified accountant of the Company, all with effect from 24th December, 2002.

AUDITORS

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

On behalf of the Board

Ch'ien Kuo Fung, Raymond

Chairman

Hong Kong

12th February, 2003



To the members

hongkong.com Corporation

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

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

Ernst & Young

Hong Kong

12th February, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	5	54,595	86,526
Cost of sales		(30,091)	(49,225)
Gross profit		24,504	37,301
Other revenue and gains	5	62,999	96,420
Selling and distribution expenses		(1,004)	(4,429)
Administrative expenses		(53,598)	(70,668)
Other operating expenses, net		313	(26,876)
PROFIT FROM OPERATING ACTIVITIES	6	33,214	31,748
Finance costs	7	(7,018)	(995)
Share of losses of associates		–	(802)
PROFIT BEFORE TAX		26,196	29,951
Tax	10	710	(1,581)
PROFIT BEFORE MINORITY INTERESTS		26,906	28,370
Minority interests		233	71
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	27,139	28,441
EARNINGS PER SHARE	12		
Basic		0.66 cents	0.69 cents
Diluted		0.66 cents	0.69 cents

CONSOLIDATED BALANCE SHEET

31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	8,500	20,600
Interests in associates	15	–	–
Goodwill	16	8,862	11,279
Long term investments	18	62,400	–
Pledged securities	18	37,108	–
		116,870	31,879
CURRENT ASSETS			
Amounts due from fellow subsidiaries	17	8,152	12,940
Short term investments	18	964,042	1,152,866
Pledged securities	18	907,098	312,897
Accounts receivable	19	8,732	17,328
Prepayments, deposits and other receivables		23,229	35,313
Cash and cash equivalents	20	118,709	25,875
		2,029,962	1,557,219
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries	17	1,158	3,219
Tax payable		187	2,588
Accounts payable	21	6,663	7,568
Other payables and accrued liabilities		10,348	13,991
Interest-bearing bank borrowings	22	748,801	264,420
Deferred revenue		9,441	649
		776,598	292,435
NET CURRENT ASSETS		1,253,364	1,264,784
TOTAL ASSETS LESS CURRENT LIABILITIES		1,370,234	1,296,663
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	22	31,492	–
MINORITY INTERESTS		5,640	5,873
		1,333,102	1,290,790
CAPITAL AND RESERVES			
Issued capital	23	413,156	413,156
Reserves		919,946	877,634
		1,333,102	1,290,790

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December, 2002

	Issued capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Group							
At 1st January, 2001	409,600	904,170	(47,580)	2,001	–	(17,947)	1,250,244
Issue of shares, net of issuing expenses	3,556	9,034	–	–	–	–	12,590
Impairment of goodwill	–	–	16,365	–	–	–	16,365
Movement in fair value	–	–	–	(13,794)	–	–	(13,794)
Exchange realignment	–	–	–	–	(1,055)	–	(1,055)
Net gains and losses not recognised in the consolidated profit and loss account	–	–	–	(13,794)	(1,055)	–	(14,849)
Investment revaluation reserve released on disposal	–	–	–	(2,001)	–	–	(2,001)
Profit for the year	–	–	–	–	–	28,441	28,441
At 31st December, 2001	413,156	913,204	(31,215)	(13,794)	(1,055)	10,494	1,290,790
Movement in fair value	–	–	–	2,030	–	–	2,030
Exchange realignment	–	–	–	–	784	–	784
Net gains and losses not recognised in the consolidated profit and loss account	–	–	–	2,030	784	–	2,814
Investment revaluation reserve released on disposal	–	–	–	12,359	–	–	12,359
Profit for the year	–	–	–	–	–	27,139	27,139
At 31st December, 2002	413,156	913,204	(31,215)	595	(271)	37,633	1,333,102

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December, 2002

	Issued capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Group							
Retained by:							
Company and subsidiaries	413,156	913,204	(31,215)	595	(271)	41,232	1,336,701
Associates	-	-	-	-	-	(3,599)	(3,599)
At 31st December, 2002	413,156	913,204	(31,215)	595	(271)	37,633	1,333,102
Company and subsidiaries	413,156	913,204	(31,215)	(13,794)	(1,055)	14,093	1,294,389
Associates	-	-	-	-	-	(3,599)	(3,599)
At 31st December, 2001	413,156	913,204	(31,215)	(13,794)	(1,055)	10,494	1,290,790

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2002

	Note	2002 HK\$'000	2001 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operating activities		33,214	31,748
Adjustments for:			
Interest income		(3,031)	(3,724)
Interest income on debt securities		(75,848)	(75,639)
Depreciation		13,692	13,060
Amortisation of goodwill		2,417	806
Impairment of goodwill		–	16,365
Loss on disposal of fixed assets		503	1,432
Loss/(gain) on disposal of debts securities		16,137	(16,017)
Provision for doubtful debts		1,523	2,277
Provision for interests in associates		–	2,050
Provision/(write back of provision) for investment deposits paid		(2,711)	3,900
Operating loss before working capital changes		(14,104)	(23,742)
Increase in interests in associates		–	(59)
Decrease in an amount due from a related company		–	13,552
Decrease/(increase) in amounts due from fellow subsidiaries		4,788	(9,166)
Decrease/(increase) in accounts receivable		7,073	(5,265)
Decrease/(increase) in prepayments, deposits and other receivables		14,795	(8,827)
Decrease in amounts due to fellow subsidiaries		(2,061)	(17,575)
Increase/(decrease) in accounts payable, other payables and accrued liabilities		(4,548)	5,549
Increase/(decrease) in deferred revenue		8,792	(8,207)
Cash generated from/(used in) operating activities		14,735	(53,740)
Income taxes paid		(1,691)	(371)
Net cash inflow/(outflow) from operating activities		13,044	(54,111)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income from bank balances		3,031	3,724
Interest income on debt securities		75,848	75,639
Purchases of fixed assets		(2,139)	(5,624)
Purchases of short term investments		(2,824,452)	(7,700,086)
Acquisition of subsidiaries	25(a)	–	3,235
Proceeds from sale of fixed assets		30	–
Proceeds from disposal of short term investments		2,317,819	7,401,059
Net cash outflow from investing activities		(429,863)	(222,053)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2002

	2002 HK\$'000	2001 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	–	(37)
New bank borrowings	780,293	264,420
Repayment of bank borrowings	(264,420)	–
Interest paid	(7,018)	(995)
Net cash inflow from financing activities	508,855	263,388
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	92,036	(12,776)
Cash and cash equivalents at 1st January	25,875	39,840
Effect of foreign exchange rate changes, net	798	(1,189)
Cash and cash equivalents at 31st December	118,709	25,875
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	24,075	22,033
Non-pledged time deposits with original maturity of less than three months when acquired	94,634	3,842
	118,709	25,875

BALANCE SHEET

31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	103,569	19,764
Long term investments	18	62,400	–
Pledged securities	18	37,108	–
		203,077	19,764
CURRENT ASSETS			
Short term investments	18	964,042	1,152,866
Pledged securities	18	907,098	312,897
Other receivables		18,052	25,488
Cash and bank balances		8	–
		1,889,200	1,491,251
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries	17	1	1
Other payables and accrued liabilities		4,822	1,207
Interest-bearing bank borrowings	22	748,801	264,420
		753,624	265,628
NET CURRENT ASSETS		1,135,576	1,225,623
TOTAL ASSETS LESS CURRENT LIABILITIES		1,338,653	1,245,387
NON-CURRENT LIABILITY			
Interest-bearing bank borrowing	22	31,492	–
		1,307,161	1,245,387
CAPITAL AND RESERVES			
Issued capital	23	413,156	413,156
Reserves	24	894,005	832,231
		1,307,161	1,245,387

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

1. CORPORATE INFORMATION

The registered office of hongkong.com Corporation is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

During the year, the Group was involved in the operation of a portal site, the provision of content and Internet services and advertising services through the Internet and a travel magazine, event organising services and magazine publication and the production and sale of hardware and software.

The Company is a subsidiary of chinadotcom corporation ("chinadotcom"), a limited company incorporated in the Cayman Islands and listed on NASDAQ, which is considered by the directors to be the Company's ultimate holding company.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency transactions"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discounting operations"
- SSAP 34: "Employee benefits"

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 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on pages 27 and 28 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated at weighted average exchange rates for the year, whereas they were previously translated at exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 15 (Revised) prescribes the revised format for the consolidated cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash equivalents" and "Foreign currencies" in note 3 to the financial statements. The format of the consolidated cash flow statement set out on pages 29 and 30 of the consolidated financial statements and the notes thereto have been revised in accordance with the new requirements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme(s), as detailed in note 23 to the consolidated financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the consolidated financial statements as a consequence of the SSAP.

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 except for the periodic remeasurement of debt securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are 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, 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 accountings, 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.

Prior to 1st January, 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the accounting policy above.

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. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill including goodwill remaining eliminated against consolidated reserves, 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 consolidated profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

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

Fixed assets and depreciation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation (continued)**

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

Leasehold improvements	Over the lesser of lease terms or the asset useful lives
Furniture and fixtures	20%
Office equipment	20%
Computer equipment and software	33- $\frac{1}{3}$ %
Motor vehicles	33- $\frac{1}{3}$ %

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

Investments

Investments are investments in securities held for non-trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the consolidated profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the consolidated profit and loss account to the extent of the amount previously charged.

Repurchase agreement

Debt securities sold under agreements to repurchase are classified as pledged securities and are accounted for in accordance with the accounting policies in the "Investments" section above. The agreements specify the third parties' right to request additional collateral. Both parties monitor the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and may request a cash transfer at least equal to that net exposure as necessary.

Deferred revenue

Deferred revenue represents amounts received in advance for services being rendered.

Operating leases

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

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) advertising service fees are derived from the sales of banner advertisements and sponsorships in which the Group delivers advertising for a fixed fee on the Group's websites and advertising affiliates, which comprise third party websites. Advertising revenue is derived principally from short term advertising contracts pursuant to which the Group may guarantee a minimum number of impressions to advertisers over a specific period of time for a fixed fee. Revenue from advertising is recognised ratably in the period in which the advertisement is displayed, provided that no significant Group obligations remain, at the lesser of the ratio of impressions delivered over total guaranteed impressions or the straight-line basis over the term of contract, and when collection of the resulting receivable is probable. Advertising service fees from direct mailings are derived from advertisements sent to electronic mail users registered with the Group and are recognised when each advertisement is sent;
- (b) from the rendering of services, as the underlying services are provided;
- (c) 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; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Barter transactions

When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue and barter revenue and expenses are recognised. Barter revenue and expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, barter revenue and expenses are measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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.

Foreign currencies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year. The balance sheets of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

In previous years, the profit and loss accounts and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The change in the treatment of such items in the current year has, however, had no significant effect on these financial statements.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Retirement benefits scheme

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

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

Share option scheme

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and in hand, net of outstanding bank overdrafts, and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired. For the purpose of balance sheet classification, cash and cash equivalents comprise cash at bank and in hand including term deposit; and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

Due to a change in the dominant source and nature of the Group's risks and returns during the year, the Group has determined that the primary reporting format should be changed from geographical segments to business segments commencing from 1st January, 2002. Furthermore, the identification of segments has been changed in order to alignment with the nature of the Group's risks and returns. The segment reporting formats have been revised in accordance with the new policy. Comparative figures have been restated to conform with the current year's presentation.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services and products they provide producing the revenues. Each of the Group's business segments represents a strategic business unit that offers services and products 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) Portal advertising and content and Internet service provision segment;
- (b) Travel-related services segment which includes the provision of travel-related advertising, publishing and event organising services and travel services; and
- (c) Production and sale of hardware and software segment.

Intersegment sales and transfers are transacted by reference to the selling prices that would have been used for sales made to third parties at the then current market prices. In determining the Group's geographical segments and revenue are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

	Portal advertising and content and Internet service provision		Travel-related services		Production and sale of hardware and software		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover										
External sales	6,723	30,524	37,431	50,206	10,441	5,796	-	-	54,595	86,526
Inter-segment sales	3,815	2,130	-	-	-	-	(3,815)	(2,130)	-	-
Total	10,538	32,654	37,431	50,206	10,441	5,796	(3,815)	(2,130)	54,595	86,526
Segment results	(11,522)	(38,871)	(9,984)	(14,766)	(3,742)	991	-	-	(25,248)	(52,646)
Interest income and unallocated gains									62,721	96,420
Unallocated expenses									(4,259)	(12,026)
Profit from operating activities									33,214	31,748
Finance costs									(7,018)	(995)
Share of losses of associates									-	(802)
Profit before tax									26,196	29,951
Tax									710	(1,581)
Profit before minority interests									26,906	28,370
Minority interests									233	71
Net profit from ordinary activities attributable to shareholders									27,139	28,441
ASSETS										
Segment assets	180,540	108,787	27,006	31,847	25,076	33,802	(74,497)	(76,589)	158,125	97,847
Unallocated assets									1,988,707	1,491,251
Total assets									2,146,832	1,589,098

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Portal advertising and content and Internet services		Travel-related services		Production and sale of hardware and software		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
LIABILITIES										
Segment liabilities	163,634	80,843	81,568	78,075	22,289	27,002	(246,065)	(164,352)	21,426	21,568
Unallocated liabilities									786,664	270,867
Total liabilities									808,090	292,435
Other segment information:										
Capital expenditure	1,368	1,691	106	6,158	349	14,000			1,823	21,849
Depreciation and amortisation	10,760	11,770	1,792	1,278	3,557	818			16,109	13,866
Non-cash expenses other than depreciation and amortisation	327	16,332	(2,056)	13,262	1,166	-			(563)	29,594

(b) Geographical segments

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

	Hong Kong		Other Asian countries*		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	7,023	30,764	47,572	55,762	-	-	54,595	86,526
Other segment information:								
Segment assets	2,343,735	1,580,669	49,162	58,011	(246,065)	(49,582)	2,146,832	1,589,098
Capital expenditure	1,368	5,686	455	16,163	-	-	1,823	21,849

* Other Asian countries include Singapore, the People's Republic of China (other than Hong Kong) and Taiwan.

5. TURNOVER AND REVENUE AND GAINS

Due to a change in the dominant source and nature of the Group's risks and returns, the directors performed a detailed review of the revenue structure of the Group during the year. As a result of the review, the directors consider that it is appropriate to classify the Group's principal segments into three revenue streams, namely portal advertising and content and Internet services, travel-related services and the production and sale of hardware and software, in order to align with the nature of the Group's risks and returns. Accordingly, certain comparative amounts have been reclassified to conform with the presentation adopted in these financial statements.

Turnover represents portal advertising content and Internet services, travel-related advertising, publishing and event organising fees and income from production and sale of railway ticketing system hardware and software.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover:		
Portal advertising and content and Internet services	6,723	30,524
Travel-related services	37,431	50,206
Production and sale of railway ticketing system hardware and software	10,441	5,796
	54,595	86,526
Other revenue:		
Interest income	3,031	3,724
Interest income on debt securities	75,848	75,639
Gain/(loss) on disposal of debts securities	(16,137)	16,017
Others	257	115
	62,999	95,495
Gains:		
Foreign exchange gains, net	-	925
	62,999	96,420

6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Auditors' remuneration	749	798
Minimum lease payments under operating leases in respect of land and buildings	2,532	3,088
Staff costs*:		
Salaries and allowances	32,765	49,567
Pension scheme contributions#	1,030	1,767
	33,795	51,334
Barter costs	2,167	3,570
Depreciation	13,692	13,060
Marketing and promotion expenses	444	3,060
Exchange losses, net	278	–
Other operating expenses:		
Goodwill:		
Amortisation for the year	2,417	806
Impairment arising during the year	–	16,365
	2,417	17,171
Loss on disposal of fixed assets	503	1,432
Provision for bad and doubtful debts	1,523	2,277
Provision/(write-back of provision) for investment deposits paid	(2,711)	3,900
Provision/(write-back of provision) for interests in associates	(2,045)	2,050
Others	–	46
	(313)	26,876

* Including directors' remuneration as disclosed in note 8 to the financial statements.

At 31st December, 2002, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans	7,018	995

8. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Executive directors:		
Fees	164	328
Salaries and allowances	1,745	1,474
Pension scheme contributions	12	12
	1,921	1,814
Non-executive directors:		
Fees	–	117
Independent non-executive directors:		
Fees	273	222
	2,194	2,153

The number of directors whose remuneration fell within the following bands is set below:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	11	12
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
	12	13

For the year ended 31st December, 2002, all the executive directors received fees of HK\$1 each save for two executive director who received fees of HK\$94,000 and HK\$70,000, respectively and another executive director who received an amount of HK\$1,757,000. Three independent non-executive directors received fees of HK\$137,000, HK\$117,000 and HK\$19,000, respectively. Apart from the aforesaid remunerations, none of the non-executive directors received any other emoluments in respect of their service to the Company in the capacity of a director.

8. DIRECTORS' REMUNERATION (continued)

For the year ended 31st December, 2001, all the executive directors received fees of HK\$1 each save for two executive directors who received fees of HK\$164,000 each and another executive director who received an emolument of HK\$1,486,000. Two non-executive directors received fees of HK\$70,000 and HK\$47,000 respectively. Three independent non-executive directors received fees of HK\$105,000, HK\$70,000 and HK\$47,000 respectively. Apart from the aforesaid remunerations, none of the non-executive director nor independent non-executive directors received any other emoluments in respect of their service to the Company in the capacity of a director.

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

During the year ended 31st December, 2001, 37,800,000 share options were granted to the directors in respect of their services to the Group. The estimated value of such options, which has not been charged to the consolidated profit and loss account, was HK\$7,182,000 as at the date of grant. This was determined using the Black-Scholes Model. No option was granted to the directors in the year ended 31st December, 2002.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2001: one) executive director of the Company, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining four (2001: four) highest paid, non-director employees are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	3,156	3,939
Performance related bonuses	198	649
Pension scheme contributions	125	215
	3,479	4,803

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2002	2001
Nil – HK\$1,000,000	3	–
HK\$1,000,001 – HK\$1,500,000	1	4
	4	4

During the year ended 31st December, 2001, 3,213,020 share options were granted to the four non-directors, highest paid employees in respect of their services to the Group. The estimated value of such options, which has not been charged to the consolidated profit and loss account or included in the above remuneration disclosure, was approximately HK\$610,000 as at the date of grant. This was determined using the Black-Scholes Model. No option was granted to the five highest paid employees in the year ended 31st December, 2002.

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

10. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Group – overseas profits tax credit/(charge)	710	(1,581)

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The principal components of the Group's unprovided deferred tax asset calculated at the rate of 16% (2001: 16%) at the balance sheet date are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Accelerated capital allowances	(1,007)	(1,075)
Tax losses carried forward	21,236	15,495
	20,229	14,420

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$47,385,000 (2001: Net profit of HK\$2,185,000).

12. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$27,139,000 (2001: HK\$28,441,000) and weighted average number of 4,131,558,942 (2001: 4,107,852,476) ordinary shares.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$27,139,000 (2001: HK\$28,441,000) and the weighted average number of 4,131,776,746 (2001: 4,116,909,803) ordinary shares, after adjusting for the effects of all dilutive potential shares during the year.

The reconciliation of weighted average number of shares used in the calculation of basic earnings per share and diluted earnings per share is as follows:

	2002	2001
	HK\$'000	HK\$'000
Weighted average number of ordinary shares used in basic earnings per share calculation	4,131,558,942	4,107,852,476
Weighted average number of shares assumed issued at no consideration on deemed exercise of share options during the year	217,804	9,057,327
Weighted average number of ordinary shares used in diluted earnings per share calculation	4,131,776,746	4,116,909,803

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

13. FIXED ASSETS

Group

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer equipment and software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At 1st January, 2002	1,290	718	1,405	38,653	–	42,066
Exchange adjustments	(78)	(15)	–	(230)	–	(323)
Additions during the year	214	12	–	1,669	244	2,139
Disposals	(76)	(9)	(172)	(447)	–	(704)
At 31st December, 2002	1,350	706	1,233	39,645	244	43,178
Accumulated depreciation:						
At 1st January, 2002	293	360	473	20,340	–	21,466
Exchange adjustments	(72)	(9)	1	(229)	–	(309)
Charge for the year	271	243	325	12,792	61	13,692
Written back on disposals	(9)	(2)	(63)	(97)	–	(171)
At 31st December, 2002	483	592	736	32,806	61	34,678
Net book value:						
At 31st December, 2002	867	114	497	6,839	183	8,500
At 31st December, 2001	997	358	932	18,313	–	20,600

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	171,568	87,763
	171,569	87,764
Provisions for amounts due from subsidiaries	(68,000)	(68,000)
	103,569	19,764

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

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity and voting shares attributable to the Company				Principal activities
			2002		2001		
			Direct	Indirect	Direct	Indirect	
Beijing China-Railway Times Science and Technology Company Limited	People's Republic of China	RMB1,000,000	-	60%	-	60%	Production and sale of hardware and software
Beijing Times Prime Science and Technology Company Limited	People's Republic of China	US\$1,000,000	-	60%	-	60%	Production and sale of hardware and software
Clovelly Logistics Limited	British Virgin Islands	US\$1	-	100%	-	100%	Investment holding
hongkong.com Limited	Hong Kong	HK\$1,000	100%	-	100%	-	Operation of a portal site, provision of content and Internet services, and advertising services through Internet
hongkong.com Nominees Limited	British Virgin Islands	US\$1	100%	-	100%	-	Provision of nominee services
hongkong.com Strategic Inc.	British Virgin Islands	US\$1	100%	-	100%	-	Holding of domain names
hongkong.com Travel Holdings (HK) Limited	Hong Kong	HK\$100	-	100%	-	100%	Investment holding
hongkong.com Travel Holdings Limited	Hong Kong	HK\$100	-	100%	-	100%	Investment holding

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity and voting shares attributable to the Company				Principal activities
			2002		2001		
			Direct	Indirect	Direct	Indirect	
Linkwise Technology Limited	British Virgin Islands	US\$1	-	100%	-	100%	Investment holding
Prime Model Technology Limited	British Virgin Islands	US\$10,000	-	60%	-	60%	Investment holding
Travellerzone Limited	Hong Kong	HK\$1,000,000	-	100%	-	100%	Travel agency
Travio Global Inc.	British Virgin Islands	US\$458,001	-	77.5%	-	77.5%	Investment holding
台灣華網旅行社股份有限公司 Travio Global Inc., Taiwan	Taiwan	NT\$6,000,000	-	77.5%	-	77.5%	Travel agency
TTG Asia Limited	British Virgin Islands	US\$1	-	100%	-	100%	Investment holding
TTG Asia Media Pte Limited	Singapore	S\$100,000	-	100%	-	100%	Provision of advertising, event organising services and magazine publication
Universal Multimedia Inc.	British Virgin Islands	US\$1	100%	-	100%	-	Investment holding
旅聯科技股份有限公司 Yes Net International Enterprises Inc.	Taiwan	NT\$16,750,000	-	100%	-	100%	Provision of hotel Internet booking system

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

15. INTERESTS IN ASSOCIATES

	2002 HK\$'000	2001 HK\$'000
Share of net assets	5	5
Amount due from an associate	–	2,045
	5	2,050
Provision for impairment	(5)	(2,050)
	–	–

The amount due from an associate as at 31st December, 2001 was unsecured, bore interest at US Dollar prime rate and was repaid during the year.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of indirect ownership interest attributable to the Group		Principal activities
			2002	2001	
GameisLive Corporation Limited*	Corporate	Hong Kong	32.28%	35.5%	Provision of wireless application services
InfoisLive Corporation Limited*	Corporate	Hong Kong	32.28%	35.5%	Provision of wireless application services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

16. GOODWILL

Group

	HK\$'000
Cost:	
At beginning of year and 31st December, 2002	<u>12,085</u>
Accumulated amortisation:	
At beginning of year	806
Charge for the year	<u>2,417</u>
At 31st December, 2002	<u>3,223</u>
Net book value:	
At 31st December, 2002	<u>8,862</u>
At 31st December, 2001	<u>11,279</u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves or credited to the goodwill reserve, respectively.

The Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, the Group recognised an impairment of part of the goodwill previously eliminated against consolidated reserves of HK\$16,365,000 during the year ended 31st December, 2001.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, is HK\$31,215,000 as at 1st January, 2002 and 31st December, 2002. The amount of goodwill is stated at its cost of HK\$47,580,000, less impairment of HK\$16,365,000 which arose in the year ended 31st December, 2001.

17. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

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

18. INVESTMENTS

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Long term investments:		
Overseas listed debt securities, at fair value	37,108	–
Overseas unlisted debt securities, at fair value	62,400	–
	99,508	–
Less: Pledged for long term bank loans	(37,108)	–
	62,400	–
Short term investments:		
Overseas listed debt securities, at fair value	1,871,140	1,416,342
Overseas unlisted debt securities, at fair value	–	49,421
	1,871,140	1,465,763
Less: Pledged for short term bank loans	(907,098)	(312,897)
	964,042	1,152,866

During the years ended 31st December, 2002 and 2001, the Group entered into a repurchase agreement and/or a total return swap agreement with certain banks pursuant to which the Group sold certain debt securities to the banks at a discounted price (the "Purchase Price") and the banks agreed to sell back the same debt securities to the Group at the Purchase Price at a later date (note 22).

As at 31st December, 2002, pledged securities are listed debt securities held by the bank as collateral under the arrangements mentioned above of approximately HK\$907,098,000 (equivalent to approximately US\$116,295,000) (2001: HK\$312,897,000) and HK\$37,108,000 (equivalent to approximately US\$4,757,000) (2001: Nil) for securing short term bank loans of approximately HK\$748,801,000 (equivalent to approximately US\$96,000,000) (2001: HK\$264,420,000) and long term bank loans of approximately HK\$31,492,000 (equivalent to approximately US\$4,037,500) (2001: Nil) (note 22).

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

19. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 90 days	8,611	16,312
91 – 120 days	33	391
121 – 180 days	59	584
Over 180 days	29	41
	8,732	17,328

The trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by management.

20. CASH AND CASH EQUIVALENTS

	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	24,075	22,033
Time deposits	94,634	3,842
	118,709	25,875

Time deposits of HK\$480,000 as at 31st December, 2001 were pledged to banks as guarantees to certain suppliers of the Group.

21. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 90 days	4,534	6,705
91 – 120 days	996	528
121 – 180 days	182	114
Over 180 days	951	221
	6,663	7,568

22. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans repayable:				
Within one year or on demand	748,801	264,420	748,801	264,420
In the second year	–	–	–	–
In the third to fifth years, inclusive	31,492	–	31,492	–
	780,293	264,420	780,293	264,420
Classified as current liabilities	(748,801)	(264,420)	(748,801)	(264,420)
Long term portion	31,492	–	31,492	–

All the interest-bearing bank borrowings are secured by the pledge of certain debt securities of the Group and the Company (note 18).

During the years ended 31st December, 2002 and 2001, the Group entered into a repurchase agreement and/or a total return swap agreement with certain banks pursuant to which the Group sold certain debt securities to the banks at Purchase Price and the banks agreed to sell back the same debt securities to the Group at the Repurchase Date. During the period between the date that the Group sold the debt securities to the banks (the "Purchase Date") and the Repurchase Date, the banks shall pay to the Group any income in respect of the debt securities and the Group shall pay to the banks interest calculated at the Purchase Price at LIBOR plus 0.2% and 3 months LIBOR plus 0.35% (2001: LIBOR plus 0.23%) per annum and the number of days between the Purchase Date and the Repurchase Date. Either party with a net exposure from the transaction exposures arising from the fluctuations in the market value of the securities or other means may request the other party to make a cash transfer at least equal to that net exposure.

23. SHARE CAPITAL**(a) Share capital**

	2002 HK\$'000	2001 HK\$'000
Authorised:		
10,000,000,000 (2001: 10,000,000,000) ordinary shares of HK\$0.10	1,000,000	1,000,000
Issued and fully paid:		
4,131,558,942 (2001: 4,131,558,942) ordinary shares of HK\$0.10	413,156	413,156

23. SHARE CAPITAL (continued)**(a) Share capital (continued)**

A summary of the transactions during the year with reference to the movements in the Company's ordinary share capital is as follows:

	2002 Number of of shares	2001 Number of of shares	2002 HK\$'000	2001 HK\$'000
At beginning of year	4,131,558,942	4,096,000,000	413,156	409,600
Issue of shares	–	35,558,942	–	3,556
At end of year	4,131,558,942	4,131,558,942	413,156	413,156

(b) Share options

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Scheme") and post-IPO share option scheme (the "Post-IPO Scheme") on 25th February, 2000 which will remain in force for 10 years. On 30th April, 2002, the Company adopted a 2002 share option scheme (the "2002 Scheme") which has an option life of 10 years. The Pre-IPO Scheme and the Post-IPO Scheme were operated for the purpose of recognising the contribution of certain directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of shares of the Company on GEM, while the 2002 scheme was operated for providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Pre-IPO Scheme include the Company's directors, employees, and consultants and advisors of the Group. The eligible participants of the Post-IPO Scheme and the 2002 Scheme include the Company's directors and employees of the Group.

The maximum number of shares which can be granted under the Pre-IPO Scheme and the Post-IPO Scheme must not exceed 10% of the issued share capital of the Company as at the date of listing of the shares on GEM. For the 2002 Scheme, the maximum number of shares which can be granted must not exceed 10% of the issued share at the date of approval of such Scheme. At 31st December, 2002, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme was 103,589,700, 56,303,322 and 1,369,268, respectively, which represented approximately 3.9% in aggregate of the Company's shares in issue as at that date. Pursuant to the Pre-IPO Scheme and the Post-IPO Scheme, no participant shall be granted and option which if exercised in full would result in such participants maximum entitlement exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable. The maximum number of shares issuable under share options to each participant in the 2002 Scheme with 12-month period, is limited to 1% of the shares of the Company in issue at any time. For all schemes, further grant of share options in excess of this limit is subject to shareholders' approval.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

23. SHARE CAPITAL (continued)**(b) Share options (continued)**

The offer of a grant of share options under the Pre-IPO Scheme and the Post-IPO Scheme may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. For the 2002 Scheme, the offer of a grant of share options may be accepted with 7 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. However, for the Pre-IPO Scheme and the Post-IPO Scheme, each of the grantees of the options is not allowed to exercise in aggregate in excess of 25%, 50% and 75% of shares comprised in the options granted within the first, second and third years from one year after the date of grant of options, respectively. No Pre-IPO or Post-IPO share options can be exercised prior to 9th March, 2001.

For the 2002 Scheme, there is no general requirement on the minimum period for which option must be held or the performance targets which must be achieved before an option can be exercised.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

The particulars in relation to each share option scheme of the Company are disclosed as follows:

(i) Pre-IPO Scheme

Name or category of participant	Date of grant of share options	Exercise price HK\$	Number of share options		
			At 1st January, 2002	Lapsed during the year	At 31st December, 2002
Directors					
Ch'ien Kuo Fung Raymond	9th March, 2000	1.880	10,000,000	–	10,000,000
Chan Kai Yu, Rudy	9th March, 2000	1.880	60,000,000	–	60,000,000
Chan Wing Tak, Douglas	9th March, 2000	1.880	1,000,000	–	1,000,000
Chou Kei Fong, Silas	9th March, 2000	1.880	1,000,000	–	1,000,000
Hung Shuk Tak, Vicky	9th March, 2000	1.880	5,000,000	–	5,000,000

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

23. SHARE CAPITAL (continued)

(b) Share options (continued)

(i) Pre-IPO Scheme (continued)

Name or category of participant	Date of grant of share options	Exercise price HK\$	Number of share options		
			At 1st January, 2002	Lapsed during the year	At 31st December, 2002
Directors					
Lin Jack	9th March, 2000	1.880	530,000	–	530,000
Wong Sin Just	9th March, 2000	1.880	1,000,000	–	1,000,000
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000	–	6,000,000
Zhou Shun Ao	9th March, 2000	1.880	6,000,000	–	6,000,000
Directors (resigned during the year)					
Edelson, Harry	9th March, 2000	1.880	1,000,000	(1,000,000)	–
Hamilton, Peter John	9th March, 2000	1.880	5,000,000	(5,000,000)	–
Other employees					
In aggregate	9th March, 2000	1.880	3,966,980	(2,788,360)	1,178,620
Others					
In aggregate	9th March, 2000	1.880	15,776,480	(3,895,400)	11,881,080
			<u>116,273,460</u>	<u>(12,683,760)</u>	<u>103,589,700</u>

23. SHARE CAPITAL (continued)

(b) Share options (continued)

(ii) Post-IPO Scheme

Name or category of participant	Date of grant of share options	Exercise price HK\$	At 1st January, 2002	Number of share options			Price of Company's Share at the grant date of option HK\$
				Granted during the year	Lapsed during the year	At 31st December, 2002	
Directors							
Ch'ien Kuo Fung Raymond	10th April, 2001	0.286	4,000,000	-	-	4,000,000	
Chan Kai Yu, Rudy	5th October, 2000 10th April, 2001	0.582 0.286	10,000,000 20,000,000	- -	- -	10,000,000 20,000,000	
Chan Wing Tak, Douglas	10th April, 2001	0.286	600,000	-	-	600,000	
Chou Kei Fong, Silas	10th April, 2001	0.286	600,000	-	-	600,000	
Hung Shuk Tak, Vicky	10th April, 2001	0.286	2,000,000	-	-	2,000,000	
Lin, Jack	10th April, 2001	0.286	2,000,000	-	-	2,000,000	
Wong Sin Just	10th April, 2001	0.286	600,000	-	-	600,000	
Yip Hak Yung, Peter	10th April, 2001	0.286	2,400,000	-	-	2,400,000	
Zhou Shun Ao	10th April, 2001	0.286	2,400,000	-	-	2,400,000	
Directors (resigned during the year)							
Edelson, Harry	10th April, 2001	0.286	600,000	-	(600,000)	-	
Hamilton, Peter John	10th April, 2001	0.286	2,000,000	-	(2,000,000)	-	

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

23. SHARE CAPITAL (continued)

(b) Share options (continued)

(ii) Post-IPO Scheme (continued)

Name or category of participant	Date of grant of share options	Exercise price HK\$	Number of share options				Price of Company's Share at the grant date of option HK\$
			At 1st January, 2002	Granted during the year	Lapsed during the year	At 31st December, 2002	
Other employees							
In aggregate	6th April, 2000	2.106	103,340	-	-	103,340	
	7th April 2000 – 19th June 2000	1.310 – 1.977	900,420	-	-	900,420	
	14th August, 2001 – 28th March, 2002	0.286 – 0.876	18,621,160	2,454,160	(10,375,758)	10,699,562	0.326 – 0.347
			<u>66,824,920</u>	<u>2,454,160</u>	<u>(12,975,758)</u>	<u>56,303,322</u>	

(iii) 2002 Scheme

Name or category of participant	Date of grant of share options	Exercise price HK\$	Number of share options				Price of Company's share at the grant date of option HK\$
			At 1st January, 2002	Granted during the year	Lapsed during the year	At 31st December, 2002	
Other employees							
In aggregate	19th August, 2002	0.200	-	1,020,508	(51,660)	968,848	0.200
	2nd December, 2002	0.208	-	400,420	-	400,420	0.208
			<u>-</u>	<u>1,420,928</u>	<u>(51,660)</u>	<u>1,369,268</u>	

The financial impact of share options granted under the Post-IPO Scheme and 2002 Scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

23. SHARE CAPITAL (continued)**(b) Share options (continued)***(iii) 2002 Scheme (continued)*

The directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of the grant of the options:

Grantee	Number of options granted during the year HK\$	Theoretical value of share options HK\$
Post-IPO Scheme:		
Other employees	2,454,160	585,382
2002 Scheme:		
Other employees	1,420,928	174,516

The Black-Scholes model is a generally accepted method of valuing options, using certain variables, including risk-free interest rate, expected life of the options, and expected volatility and expected dividend of the shares of the Company. The range of interest rate applied in the Black-Scholes model is 3.57% to 5.42%, representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options. The expected life of the option used is 5 years and the expected volatility of the expected share prices of the Company ranging from 0.768% to 0.847% is used in the Black-Scholes model. It is assumed that based on historical pattern, no dividend would be paid out during the vesting period. The measurement dates used in the theoretical valuation calculations were the dates on which the options were granted.

The values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

24. RESERVES

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company				
At 1st January, 2001	904,170	–	(69,364)	834,806
Profit for the year	–	–	2,185	2,185
Issue of shares, net of issuing expenses	9,034	–	–	9,034
Movement in fair value	–	(13,794)	–	(13,794)
At 31st December, 2001 and 1st January, 2002	913,204	(13,794)	(67,179)	832,231
Profit for the year	–	–	47,385	47,385
Investment revaluation reserve released on disposals	–	12,359	–	12,359
Movement in fair value	–	2,030	–	2,030
At 31st December, 2002	913,204	595	(19,794)	894,005

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	–	1,716
Accounts receivable	–	5,411
Prepayments, deposits and other receivables	–	1,593
Cash and cash equivalents	–	14,452
Amounts due to fellow subsidiaries	–	(2,450)
Tax payable	–	(1,033)
Accounts payable	–	(2,561)
Other payables and accrued liabilities	–	(202)
Minority interests	–	(5,944)
	–	10,982
Goodwill on acquisition	–	12,085
	–	23,067
Satisfied by:		
Issuance of ordinary shares	–	10,920
Cash	–	11,217
Reclassification of interest in a subsidiary from interest in an associate	–	930
	–	23,067

Analysis of the net inflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Cash consideration	–	(11,217)
Cash and cash equivalents acquired	–	14,452
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	3,235

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Major non-cash transactions**

- (i) During the year ended 31st December, 2001, the Company issued 5,351,473 ordinary shares at an issue price of HK\$0.319 per share or approximately HK\$1,707,000 as part of the consideration for the acquisition of fixed assets.
- (ii) During the year ended 31st December, 2001, the Company issued 30,207,469 ordinary shares at an issue price of HK\$0.3615 per share or approximately HK\$10,920,000 as part of the consideration for the acquisition of a 60% interest in a subsidiary.

26. CONTINGENT LIABILITIES

The Internet website address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed the Group that it reserves its right to levy additional charges on the Group for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

27. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements for terms ranging from 2 to 3 years.

As 31st December, 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follow:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	816	1,075	–	–
In the second to fifth years, inclusive	63	1,871	–	–
	879	2,946	–	–

28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had an outstanding commitment under an agreement to acquire unlisted securities of HK\$12,480,000 as at 31st December, 2001.

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2002 HK\$'000	2001 HK\$'000
Content and Internet service fees receivable from a related company	(i)	–	13,928
Advertising service fees receivable from fellow subsidiaries	(ii)	245	3,368
Slotting advertising service fees receivable from fellow subsidiaries	(iii)	–	6,240
Advertising service fees payable to a fellow subsidiary	(iv)	(560)	(960)
Rental expense payable to a fellow subsidiary	(v)	(913)	(854)

Notes:

- (i) Content and Internet service provision fees charged to a related company of which a director of the Company is also a director were based on the actual costs incurred with a 10% mark-up.
- (ii) Advertising service fees charged to fellow subsidiaries for the display of advertisements on the hongkong.com portal were based on the standard cost per mille ("CPM") rate, i.e., cost per thousand advertisement impressions, less a discount ranging from 30% to 50% and the number of pre-agreed or actual page views on the hongkong.com portal site.
- (iii) Slotting advertising service fees charged to fellow subsidiaries for the display of advertisements on the hongkong.com portal were based on a fixed rate per month which is similar to those rates charged to other customers in the ordinary course of business of the Group.
- (iv) Advertising service fees charged by a fellow subsidiary for the display of advertisements on the Internet portal were based on a fixed monthly fee and standard CPM rate which are similar to those rates charged to other customers by that fellow subsidiary in the ordinary course of business of the Group.
- (v) Rental expense related to office premises and was charged by a fellow subsidiary based on the attributable gross floor area occupied by the Group.

NOTES TO FINANCIAL STATEMENTS

31st December, 2002

29. RELATED PARTY TRANSACTIONS (continued)

At the balance sheet date, the Group had amounts due from fellow subsidiaries of HK\$8,152,000 (2001: HK\$12,940,000), mainly arising from fund transfers and transactions described in note (ii) above.

At the balance sheet date, the Group had amounts due to fellow subsidiaries of HK\$1,158,000 (2001: HK\$3,219,000), mainly arising from fund transfers and transactions described in notes (iv) and (v) above.

During the year, the Group has been licensed the right to use the URL of hongkong.com by chinadotcom Strategic, Inc., a fellow subsidiary of the Group, at no cost (2001: Nil). Further details of the licensing arrangements are set out in note 26 to the financial statements.

The above related party transactions also fall into the definition of connected transactions as defined in Chapter 20, para 20.12 of the GEM Listing Rules.

30. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12th February, 2003.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the Shareholders of hongkong.com Corporation (the "Company") will be held at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong, on Tuesday, 29th April, 2003, at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors of the Company for the year ended 31st December, 2002;
2. To re-elect retiring directors and authorize the board of directors to fix their remuneration;
3. To re-appoint auditors and authorize the board of directors to fix their remuneration; and
4. To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

A. **"THAT:**

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- b) the approval in paragraph (a) of this resolution shall authorize the directors of the Company 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 of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to
 - (i) a Rights Issue (as defined below); or
 - (ii) the grant or exercise of any option under the share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time; or

(iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the said approval shall be limited accordingly.

(d) for the purpose 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 memorandum and articles of association of the Company, or any other applicable laws 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 of the Company by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, 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 applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).”

B. **“THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of securities of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the 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 purpose 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 memorandum and articles of association of the Company, or any other applicable laws 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 of the Company by this resolution."

C. "THAT:

Subject to the passing of the resolution nos. 4A and 4B, the general mandate granted to the directors of the Company to allot, issue and deal with additional securities pursuant to resolution no. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of securities repurchased by the Company under the authority granted pursuant to resolution no. 4B, provided that such amount of securities so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."

By Order of the Board
Kwok Yee Leen, Elaine
Company Secretary

Hong Kong
26th March, 2003

NOTICE OF ANNUAL GENERAL MEETING

Principal Office:

34/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Registered Office:

Scotia Centre, 4th Floor
P. O. Box 2804
George Town
Grand Cayman
Cayman Islands

Notes:

1. A shareholder entitled to attend and vote at the Company's meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting and in default thereof the form of proxy shall not be treated as valid.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. The Register of Members of the Company will be closed on 25th April, 2003 and re-opened on 28th April, 2003 during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Company's meeting, all shares transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 24th April, 2003 for registration.
5. An Explanatory Statement containing further details regarding resolution no. 4B above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the Annual Report 2002.