

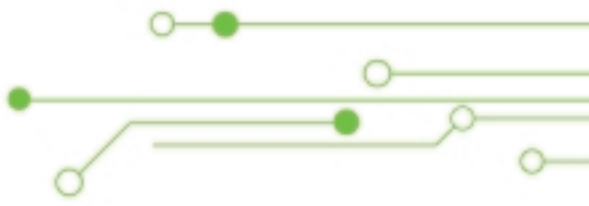


Annual Report **2002**

光彩未來集團  
Glory Future Group

## Glory Future Group Limited

*(formerly known as E-silkroad Holdings Limited)*  
*(incorporated in the Cayman Islands with limited liability)*





## Important Notice

### **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 of the Stock Exchange 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.



# Contents

	Pages
CORPORATE INFORMATION	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	6
COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS	10
USE OF PROCEEDS	12
DIRECTORS AND SENIOR MANAGEMENT	14
REPORT OF THE DIRECTORS	16
REPORT OF THE AUDITORS	29
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Profit and loss account	30
Balance sheet	31
Statement of changes in equity	32
Cash flow statement	33
Company:	
Balance sheet	35
Notes to financial statements	36
APPENDIX:	
Summary financial information	71
NOTICE OF ANNUAL GENERAL MEETING	73

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Choi Koon Ming (*Chairman*)

Luan Shusheng (*Vice-chairman*)

(*appointed on 12 February 2003*)

Hui Ching Shan (*Managing Director*)

Ng Kam Yiu (*Deputy Managing Director*)

(*appointed on 8 January 2003*)

Chow Yeung Tuen, Richard

### Non-executive Directors

Chau Chi Man (*appointed on 12 February 2003*)

Ha Kee Choy, Eugene

### Independent Non-executive Directors

Chan Yan Tin, Andrew

Cho Po Hong, Jimmy

## COMPANY SECRETARY

Leung Wai Sze

## QUALIFIED ACCOUNTANT

Leung Wai Sze

## COMPLIANCE OFFICER

Ng Kam Yiu

## AUTHORISED REPRESENTATIVES

Chow Yeung Tuen, Richard

Ng Kam Yiu

## AUDIT COMMITTEE

Cho Po Hong, Jimmy

(*Committee Chairman*)

Chan Yan Tin, Andrew

Chow Yeung Tuen, Richard

## AUDITORS

Ernst & Young

*Certified Public Accountants*

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

International Bank of Asia

## REGISTERED OFFICE

Century Yard,

Cricket Square,

Hutchins Drive,

P.O. Box 2681GT,

George Town,

Grand Cayman,

British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Office Nos. 701-2,

7th Floor, Man Yee Building,

60-68 Des Voeux Road Central,

Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICES

### Principal registrar

Bank of Butterfield International (Cayman) Ltd

Butterfield House,

Fort Street, P.O. Box 705,

George Town, Grand Cayman,

Cayman Islands

### Branch registrar

Tengis Limited

Ground Floor,

Bank of East Asia Harbour View Centre,

56 Gloucester Road,

Wanchai,

Hong Kong

# Chairman's Statement

I am pleased to present the annual results for Glory Future Group Limited ("Glory Future" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2002.

## UNCERTAINTY LINGERING IN GLOBAL ECONOMY

Since the new start of the century, a series of incidents affected the world at large, including the 911 Incident, U.S. accounting scandals and continuous social unrests, and changed the global business environment. Until the market demonstrates a complete and robust revival, both corporations and investors will continue to embrace a cautious approach towards any business opportunities, especially in e-commerce investment activities. During the year under review, turnover reflected the effects of the global economic slowdown and amounted to HK\$785,000, a decline of 88% as compared to fiscal year 2001. However, as a result of aggressive strategies of the Board to minimise and control costs risks, the Group has successfully narrowed loss attributable to shareholders by 62% to HK\$10,538,000, as compared to the loss of HK\$27,690,000 recorded for fiscal year 2001. The directors of the Company (the "Directors") do not recommend the payment of a final dividend.

## REVIEW

Despite the challenging market environment and slow recovery, the Group has, and will continue to, focus on generating revenue and retaining customers, by implementing effective strategies. During the period under review, the Group appointed new senior management who possess strong knowledge and expertise in doing business in the PRC as a new mixture in the management team and this is believed to bring forth new input to strengthen the focus in the PRC market.

Looking into the future, the Group will continue to implement stringent cost containment measures to ensure its long-term viability and provision of service for the existing clients. In view of the vast development potentials and the increasing foreign investments in the PRC, the Group aims to work with other companies to provide Internet based marketing in the future. The Group has also commenced market testing in the Guangdong Province. Should and when these tests are completed, the Group will devise suitable strategies accordingly so as to pave the way for the provision of its services to the entire Guangdong Province when both consumer and investor confidence have been regained.

With a population of 1.3 billion, the increasing Internet usage and its robust economic development, the PRC market is a market that no one can afford to overlook. Glory Future will not succumb to challenges, but instead, we will become even more motivated to overcome these difficulties and to achieve improvements. I would like to take this opportunity to thank our staff for demonstrating their dedication and loyalty, and our shareholders for their continuous support. To generate satisfactory returns to our shareholders is our utmost priority.



# Chairman's Statement

## PROSPECTS

With market volatility still lingering in the economic environment, the Group will continue to postpone its plan to expand the portal to other overseas markets, as with the delay in the launch of the Korean version and the overhaul of the portal design. This is an effort to minimize risk and to better allocate its resources to explore more promising business areas.

As with the rest of the world, Glory Future is hopeful of what the burgeoning PRC market can offer to strengthen its business operations. With a population of 1.3 billion, the 2008 Beijing Olympic Games, the 2010 World Expo and the new Universal Studio in Shanghai, Glory Future looks forward to, as and when the legislation permits, serving the 1.3 billion market that will increasingly demand for efficient and convenient e-commerce and Internet related products and services. In the coming future, Glory Future will continue to uphold its resources, so as to be fully prepared, should and when the market demonstrates its readiness to take-off once again. Understanding that the attractive profit pie of the PRC market cannot be overlooked, Glory Future will take the necessary steps to secure business opportunities and a satisfactory development in the healthy and fruit-bearing PRC market.

### **Choi Koon Ming**

*Chairman*

Hong Kong, 26 March 2003

# Management Discussion and Analysis

## OVERVIEW

Since the burst of the technology bubble, the global technology sector has continued to face difficulty in regaining the confidence of both consumers and investors. The slow market recovery and political tensions further impaired the overall business sentiment and affected the business performance of many companies across the industries, on a global basis, including Glory Future.

Facing such fragile economic health, a company must remain true and committed to its business model; otherwise, it will become outrivalled by intense competition. During the year under review, Glory Future continued to abide by its stringent cost control measures, so as to retain sufficient capital for its full-fledged business development when the market shows signs that it is once again ready for growth.

For the year ended 31 December 2002, turnover amounted to approximately HK\$785,000 as compared to approximately HK\$6,543,000 of the previous year. Thanks to its commitment to streamlining operations by closing down non-performing branches, the Group has again narrowed its loss attributable to shareholders by 62%, from approximately HK\$27,690,000 to approximately HK\$10,538,000 for the year under review.

## OPERATIONAL REVIEW

In view of the robust economic development in the PRC, Glory Future has injected new forces into its management mix by appointing new senior management who are experienced in and have extensive knowledge about the PRC market. While embracing a cautious and conservative strategy, Glory Future has altered its direction to focus more on the burgeoning PRC market, and the new addition to the senior management of the Group is anticipated to bring forth value adding input and insights. During the year under review, approximately 51% of the Group's total turnover was attributable to the PRC market.

Glory Future remained committed to managing its business in the past year. Despite the cautious sentiment in the e-commerce industry, the Group continued to operate its website maintenance business. During the year under review, the provision of website maintenance services contributed to 11% of the Group's total revenue.

Glory Future has, and will continue to, explore the development potential of its e-marketing business, especially in the PRC market, by seeking cooperation opportunities with companies in the PRC to provide Internet based marketing services. The Group strongly believes that business solicitation through e-exhibition halls and e-direct marketing is indeed a service that offers much value and convenience to customers, especially if their businesses are engaged within the enormous PRC market or aiming to expand to other regions and markets. Market testing of the e-marketing business in the Guangdong Province is anticipated to commence in the near future.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flows and the net proceeds from the issue of convertible redeemable note and issue of shares by way of placing during the year. The Group adheres to a prudent financial management policy.

As at 31 December 2002, the Group had cash and cash equivalent of approximately HK\$6.5 million (2001: HK\$3.8 million). During the year, the Group utilised HK\$8.8 million to finance its operations (2001: HK\$24 million).

As at 31 December 2002, the Group had total outstanding borrowings of HK\$13 million (2001: HK\$7.6 million). The borrowings comprised two unsecured convertible redeemable notes, of which HK\$6 million will mature on 19 August 2003 and HK\$7 million will mature on 28 March 2005 (2001: HK\$7.3 million).

### Capital structure

- (a) On 28 March 2002, the Company issued a convertible redeemable note of a principal amount of HK\$7 million to Sun Wah. The note is unsecured and bears interest at a rate of 8% per annum.
- (b) On 30 April 2002, the Company redeemed the convertible redeemable note of the principal amount of approximately HK\$1.3 million issued to Quantum Hi-Technology Investment Corporation at an aggregate amount, including interest, of HK\$1.4 million.
- (c) On 31 December 2002, the Company issued 100,000,000 ordinary shares of HK\$0.05 each to Glory Cyber Company Limited at HK\$0.06 per share.
- (d) As at 31 December, 2002, the Group had convertible redeemable notes of an aggregate principal amount of HK\$13 million outstanding (2001 : approximately HK\$7.3 million). Such convertible notes are unsecured and bear interest at a rate of 8% per annum.
- (e) As at 31 December 2002, the Company's total number of issued shares was 753,720,000 (2001: 653,720,000).



# Management Discussion and Analysis

## Investment, material acquisitions and disposal of subsidiaries and affiliated companies

The Group held no significant investment during the year. There were no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the year ended 31 December 2002 (2001: Nil).

## Segment comments

The continuous decreased in the size of operation in the PRC subsidiary from the end of last year together with the keen competition in Internet business in Hong Kong, the turnover from Internet-based application and web page design services had dropped by 85%. No income was generated from technical support and agency services, as the Group has scaled down, but has not terminated its resources in, the sector of provision of technical support and agency services in the PRC in order to streamline its operation. Once the market condition in the sector has recovered, the directors will consider injecting resources to such sector again. Furthermore, the decrease in turnover of web site maintenance services by 72% was mainly due to the fact that technologies related to www.expo24hrs.net are very limited and this has limited the expansion of our client base. In addition, cut off in budget by our existing clients also resulted in decrease in maintenance income of the Group. However, the management always considers ways to provide more value added services to our clients.

## Employee information

As at 31 December 2002, the Group employed a total of 14 (2001: 20) employees. The staff costs, excluding directors' remuneration, were approximately HK\$1,682,000 (2001:HK\$11,376,000). The decrease in staff costs was mainly attributable to the active cost containment strategy taken by the Group to cope with the downturn on the global e-commerce market.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operated a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full-time employees of the Group.

## Charges on group assets

As at 31 December 2002, none of the Group's assets was pledged. The pledged bank deposit of HK\$200,000 referred to in the results announcement of the Company for the year ended 31 December 2001 was released in May 2002.

## Future plans for material investments or capital assets

Saved as disclosed in the Company's prospectus dated 26 February 2001 (the "Prospectus") under the section headed "Statement of business objectives", the Group had no other future plans for material investments and acquisition of material capital assets as at 31 December 2002.

# Management Discussion and Analysis

## Gearing ratio

As at 31 December 2002, the Group's gearing ratio was approximately -1.76 (2001: -2.92), based on the total borrowings of approximately HK\$13 million (2001: approximately HK\$7.6 million) and deficiencies in assets of approximately HK\$7.4 million (2001: approximately HK\$2.6 million).

## Exposure to fluctuation in exchange rates

The Group's exposure to foreign currencies is limited to its investment in a foreign subsidiary, which is financed internally. Most of the Group's transactions, including borrowings, were conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the year. Moreover, it is also the Group's policy for each operating entity to make borrowings in local currencies, where possible, to minimise currency risk.

## Contingent liabilities

As at 31 December 2002, the Group and the Company had no significant contingent liabilities (2001: Nil).

## Connected transactions

On 28 March 2002, the Company issued a convertible redeemable note to Sun Wah for the principal amount of HK\$7 million. Sun Wah was, and still is, a substantial shareholder of the Company. Such convertible note is unsecured and bears interest at 8% per annum. Under the terms of this note, the Company may redeem the whole or part of the principal amount at any time before the maturity date on 28 March 2005, subject to the right of Sun Wah to convert the amount that the Company is exercising its redemption right into ordinary shares of HK\$0.05 each in the capital of the Company. Furthermore, Sun Wah has the right to redeem the whole or part of the principal amount in cash or convert the whole or part of the principal amount into ordinary shares of HK\$0.05 each in the capital of the Company at a price of HK\$0.05 per ordinary share, subject to adjustment, at any time before the maturity date on 28 March 2005. In such circumstances, the Company may, instead of redeeming the note or such part thereof in cash at the face value of the note plus interest, elect to satisfy the redemption by the issue of ordinary shares of the Company.

The Company will only redeem the whole or such part thereof, or elect to satisfy the redemption request made by Sun Wah, in cash, if the adequacy of working capital and liquidity of the Group is not impaired by such cash redemption. The Directors have confirmed that the possibility of the Company redeeming the whole or such part thereof, or elect to satisfy the redemption request made by Sun Wah, in cash in the twelve months period after the balance sheet date, is remote.

# Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress of the Group compared with the business objectives set out in the prospectus of the Company dated 26 February 2001 (the "Prospectus") for the period from 1 July 2002 to 31 December 2002 (the "Review Period").

## According to the business objectives as stated in the Prospectus

## Actual business progress in the Review Period

### Content development

1. Assess the possibility of and form alliances with Internet content providers to acquire content relating to international trade and commerce
2. Launch German version of [www.expo24hrs.net](http://www.expo24hrs.net)
3. Commence development of Spanish version of [www.expo24hrs.net](http://www.expo24hrs.net)
4. Continue to enrich the contents and functions of [www.expo24hrs.net](http://www.expo24hrs.net)

The Group seriously considered the benefits in forming alliances and its capabilities to develop its own contents. No alliance with any third party has been formed by the Group during the Review Period. Nevertheless, should there be any potential partner that will benefit the Group, the Directors will re-consider such alliance proposal.

The Directors consider that the existing Japanese, English and Chinese versions are adequate to fulfill users' needs. The Group continued to postpone the development of other new versions so as to minimise risk and to better allocate its resources.

The Group has been discussing the development of an online exhibition for other category with potential partners in the PRC so as to enhance the Group's business opportunities.

### Technology development

1. Continuously evaluate the system load of [www.expo24hrs.net](http://www.expo24hrs.net) and implement improvement plans, if required
2. Assess new technologies available in the market to improve the functions and performance of [www.expo24hrs.net](http://www.expo24hrs.net)

No sign of overloading has been shown. The Group has reviewed regularly on the current system to ensure its sufficiency in accommodating existing and potential visitors' demand.

The Group has been regularly evaluating new technologies available in the market. However, technologies so far available were very limited and expensive. As the Directors consider that the existing functions of [www.expo24hrs.net](http://www.expo24hrs.net) is sufficient enough to users' needs, the Group is not planning to put more funding in improving the functions in the short run.

# Comparison of Business Objectives with Actual Business Progress

- |   |   |
|---|---|
| <p>3. Form alliances with overseas technology consultants to strengthen the technical capabilities</p>        | <p>The Group performed assessment on the possibility of forming alliances with overseas technology consultants. However, the Directors consider that no suitable candidate exists and the Group pended the formation of any alliance until market showing upturn.</p> |
| <p>4. Continue to develop new web applications to enhance the features and functions of www.expo24hrs.net</p> | <p>The Company has considered developing new web applications to enhance features and functions of the portal. Though application development has been slowed down, the Group has been searching the right candidate for future cooperation.</p>                      |

## Marketing development

- |  |   |
|--|---|
| <p>1. Implement marketing plans of the Company in Hong Kong, Guangzhou and Zhongshan</p>                               | <p>The Hong Kong and the PRC markets continued to be the Group's major focus despite the fact that as regards to the PRC market, the emphasis has been shifted from Zhongshan to Shenzhen. A series of marketing plans will be launched so as to increase the Group's awareness in the PRC.</p>         |
| <p>2. Assess and develop opportunities to expand the marketing of www.expo24hrs.net into new international markets</p> | <p>To reserve more resources for the Group's development when the market improves, the strategy of expanding marketing of www.expo24hrs.net into international markets is deferred.</p>   |
| <p>3. Continue to explore and develop B2B e-commerce and other Internet and IT business opportunities</p>              | <p>The Group has been aggressively searching for e-marketing opportunities to generate immediate income. The Directors are actively explored the possibility to develop B2B e-commerce, which is expected to take several years to develop, and to develop the technology when the market is ready.</p> |

# Use of Proceeds

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO")

The proceeds from the Company's issue of new shares at the time of its listing on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 March 2001, after deduction of the related issue expenses, were applied during the two years ended 31 December 2002 in accordance with the proposed application set out in the Prospectus, as follows:

	<b>Amount extracted from the Prospectus</b>	<b>Actual proceeds being used up to 31 December 2002</b>
	HK\$ million	HK\$ million
Purchase of fixed assets	3.1	3.1
Development of operation hardware and software	3.0	1.8
Expansion of overseas markets	2.0	–
Marketing and promotion	2.0	2.0
Working capital	12.5	15.7
<b>Total</b>	<b>22.6</b>	<b>22.6</b>

# Use of Proceeds

## USE OF PROCEEDS FROM THE COMPANY'S FUND RAISING ACTIVITIES DURING THE YEAR

### Convertible redeemable note

In order to secure a long term financing resource and enhance the Group's cash position, the Company issued a convertible redeemable note (the "Note") of a principal amount of HK\$7 million to Sun Wah Net Investment Limited ("Sun Wah"), a substantial shareholder of the Company, on 28 March 2002. The application of proceeds from the Note during the year is in line with the proposed application as set out in a circular to shareholders of the Company dated 11 March 2002, as follows:

	<b>Amount extracted from the circular dated 11 March 2002 (after deduction of relevant expenses)</b> HK\$ million	<b>Actual proceeds being used up to 31 December 2002</b> HK\$ million
General working capital	6.5	6.5

### Issue of new shares by way of placing

In order to raise funds and broaden its capital and shareholder base of the Company, the Company issued 100,000,000 ordinary shares of HK\$0.05 each at a price of HK\$0.06 per ordinary share (the "Placing") to Glory Cyber Company Limited on 31 December 2002. The agreement in relation to the Placing was entered into by the Company and Glory Cyber Company Limited on 18 November 2002. The placing price of HK\$0.06 per share was equal to the closing price of the shares on GEM of HK\$0.06 per share on 18 November 2002. The application of proceeds from the Placing during the year is in line with the proposed application as set out in a circular to shareholders of the Company dated 6 December 2002, as follows:

	<b>Amount extracted from the circular dated 6 December 2002 (after deduction of relevant expenses)</b> HK\$ million	<b>Actual proceeds being used up to 31 December 2002</b> HK\$ million
General working capital	5.7	0

The remaining net proceeds as at 31 December 2002 was approximately HK\$5.7 million, which have been placed on short-term interest-bearing deposit with banks in Hong Kong.

# Directors and Senior Management

## Executive Directors

Mr. Choi Koon Ming, aged 34, joined the Group on 8 August 2000 as the Chairman of the Company. Mr. Choi is responsible for formulating the overall strategic planning of the Group. He holds a Bachelor of Arts degree from the University of British Columbia. He is also an executive director of SW Kingsway Capital Holdings Ltd. He is the brother of Mr. Choi Koon Shum, the ultimate beneficial owner of Sun Wah Net Investment Limited.

Mr. Luan Shusheng, aged 40, joined the Group on 12 February 2003 as the Vice-chairman of the Company. Mr. Luan is responsible for overseeing the entire business operation of the Group. He has over 10 years of experience in Internet-related business and is a Senior Engineer. Mr. Luan earned a Master Degree in Material Management Engineering (Computing Application) from the Northern Jiaotong University in Beijing in 1986. He founded and served as the General Manager in a number of information technology companies in the PRC.

Dr. Hui Ching Shan Douglas, aged 51, joined the Group on 25 October 2000 and is the Managing Director of the Company. He is responsible for the overall strategic planning and business development of the Group. Dr. Hui also holds directorships in various listed companies in Hong Kong and Canada. Prior to joining the Group, he had held senior positions in several local and international merchant banks, and securities houses. He holds a Bachelor Degree in Social Science from the University of Hong Kong, a Master Degree in Business Administration from the University of Toronto (Deans List/Scholarship Award) and a Doctor Degree of Business Administration degree from the University of South Australia. Dr. Hui is also a Certified Management Accountant of Canada (Dick Dawson Award) and a member of the Hong Kong Institute of Company Secretaries.

Mr. Ng Kam Yiu, aged 40, joined the Group on 8 January 2003 as the Deputy Managing Director of the Company. Mr. Ng is responsible for statutory compliance and business development of the Group. He has extensive experience in auditing and accounting. He acts as director of a number of subsidiaries of Sun Wah Hi-Tech Holdings Limited. He is also a fellow member of the Association of Chartered Certified Accountants and Hong Kong Society of Accountants.

Mr. Chow Yeung Tuen, Richard, aged 46, joined the Group on 20 August 2001. Mr. Chow is a Certified Public Accountant with over 18 years of experience in auditing and taxation. He acts as director of a number of subsidiaries of Sun Wah Hi-Tech Holdings Limited. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. He also holds a Master Degree in Business Administration.

# Directors and Senior Management

## Non-executive Directors

Mr. Chau Chi Man, Davis, aged 39, joined the Group on 12 February 2003. He is one of the founders of the World Chinese Software Association. For over 10 years, Mr. Chau has served in a number of multinational information technology companies, including IBM China/Hong Kong Corporation, Oracle Systems Hong Kong Limited and Platinum Technology Pte Limited. Mr. Chau is renowned for his experiences in the enterprise software industry. Mr. Chau graduated with a Bachelor Degree from the Faculty of Social Sciences, the Chinese University of Hong Kong in 1985 and he earned a Master of Business Administration degree from the same university in 1987.

Mr. Ha Kee Choy, Eugene, aged 45, joined the Group on 25 October 2000. Mr. Ha has over 12 years of experience in the finance and banking industry. He is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration.

## Independent Non-executive Directors

Mr. Chan Yan Tin, Andrew, aged 39, joined the Group on 1 November 2001. Mr. Chan is a non-executive director of Tern Properties Company Limited, a company listed on the Main Board of the Stock Exchange, and has extensive experience in property investment and development in both Hong Kong and overseas. He holds a Bachelor Degree in Business Administration from Simon Fraser University in Canada.

Mr. Cho Po Hong, Jimmy, aged 32, joined the Group on 1 November 2001. Mr. Cho is the Deputy Managing Director of Multifield International Holdings Limited and the Oriental Explorer Holdings Limited, both companies are listed on the Main Board of the Stock Exchange in Hong Kong. He is responsible for overseeing overall operations and formulating the Corporate Strategy of both companies. He has over 10 years of experience in corporate finance and strategic management. He has been involved in financial services industry for over 8 years with a number of brokerage houses and listed companies. He holds an Honorary Bachelor Degree in Finance from the University of Washington in Seattle, USA, a Master Degree in Business Administration from the University of Adelaide, Australia and a Master Degree of Science in e-commerce from the University of Hong Kong.

## SENIOR MANAGEMENT

Ms. Leung Wai Sze, age 35, Group Financial Controller, joined the Group on 20 August 2001. Ms. Leung is also the Qualified Accountant and Company Secretary of the Company. She is responsible for the day-to-day operations of the Group, especially in areas of financial and company secretarial matters. Ms. Leung is an associate member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. She has extensive experience in finance, company secretarial and auditing.





# Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

## **CHANGE OF NAME**

The name of the Company was changed from E-silkroad Holdings Limited to Glory Future Group Limited with effect from 31 December 2002. The change of name was approved by the shareholders of the Company pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 30 December 2002.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 15 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 70.

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

## **SUMMARY FINANCIAL INFORMATION**

A summary of the published results for the last five financial years and of the assets and liabilities of the Group at the end of the last four financial years, as extracted from the annual reports of the Company, is set out on pages 71 to 72 of the annual report. This summary does not form part of the audited financial statements.

## **FIXED ASSETS**

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



# Report of the Directors

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 22 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 31 December 2002, the Company did not have any reserves available for distribution.

## PRE-EMPTIVE RIGHTS

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

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

On 30 April 2002, the Company redeemed the HK\$1.25 million convertible redeemable note issued to Quantum Hi-Technology Investment Corporation at an aggregate amount of HK\$1.4 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of turnover attributable to the Group's five largest customers represented 40% of the total turnover for the year. The turnover from the Group's largest customer represented 16% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 35% of the total purchases for the year. The purchases from the Group's largest supplier represented 10% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the Group's five largest customers and suppliers during the year.

## DIRECTORS

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

Mr. Choi Koon Ming ("Mr. Choi")	
Mr. Hui Ching Shan ("Mr. Hui")	
Mr. Chow Yeung Tuen, Richard ("Mr. Chow")	
Mr. Yang Guozhu	(removed pursuant to a special resolution passed on 3 May 2002)
Mr. Yuen Fat Ching ("Mr. Yuen")	(resigned on 23 May 2002)
Mr. Ha Kee Choy, Eugene * ("Mr. Ha")	
Mr. Xin Wei *	(retired on 3 May 2002)
Mr. Chan Yan Tin, Andrew **	
Mr. Cho Po Hong, Jimmy **	

\* non-executive directors

\*\* independent non-executive directors



# Report of the Directors

## **DIRECTORS (continued)**

Subsequent to the balance sheet date, on 8 January 2003, Mr. Ng Kam Yiu (“Mr. Ng”) was appointed as a director of the Company. On 12 February 2003, Messrs. Luan Shu Sheng (“Mr. Luan”) and Chau Chi Man (“Mr. Chau”) were appointed as directors of the Company.

In accordance with article 86(3) of the Company’s articles of association, Mr. Ng, Mr. Luan and Mr. Chau will retire at the forthcoming annual general meeting. Mr. Ng, Mr. Luan and Mr. Chau, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 87(1) and (2) of the Company’s articles of association, Mr. Ha will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The Directors, except for the chairman and managing director but including the non-executive Directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s articles of association.

Each of Mr. Ha, Mr. Chan Yan Tin, Andrew and Mr. Cho Po Hong, Jimmy is appointed as non-executive Director or, as the case may be, independent non-executive Director for a term of one year.

## **DIRECTORS’ SERVICE CONTRACTS**

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

## **DIRECTORS’ INTERESTS IN CONTRACTS**

Except as disclosed in note 24 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES

At the balance sheet date, save as disclosed under the paragraph headed "Share option scheme" below, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the "GEM Listing Rules") on The Growth Enterprise Market ("GEM") of the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

## SHARE OPTION SCHEME

### (a) Pre-Initial Public Offering ("IPO") share options

The Pre-IPO share options were granted to certain Directors and former Directors to recognise their significant contribution to the growth of the Group prior to the listing of the shares of the Company on GEM.

- (i) On 1 March 2000, the Company granted options to certain former directors of the Company which are exercisable during a period of five years commencing from 2 March 2001, the date of commencement of dealings in the shares on GEM. The total number of such Pre-IPO share options outstanding as at 1 January 2002 and 31 December 2002 was both 39,136,800. The exercise price of the share options is HK\$0.125 per share.

As at 31 December 2002, the number of shares issuable under these share options granted represented approximately 5.2% of the Company's shares in issue as at that date.

Subsequent to the balance sheet date, all of these share options granted to the former directors of the Company were cancelled.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

### (a) Pre-Initial Public Offering ("IPO") share options (continued)

- (ii) On 25 October 2000, the Company granted options to certain directors of the Company which are exercisable during a period of three years commencing from the date of their respective first completed year of service with the Company.

Details of these options are as follows:

	Number of shares underlying the Pre-IPO share options as at 1 January and 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<b>Directors</b>				
Mr. Choi	5,024,000	25 October 2000	8 August 2001 to 7 August 2004	0.25
Mr. Hui	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
Mr. Ha	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
	<u>15,072,000</u>			

As at 31 December 2002, the number of shares issuable under these share options granted represented approximately 2% of the Company's shares in issue as at that date.

Subsequent to the balance sheet date, the share options entitling Mr. Ha to subscribe for 5,024,000 shares were cancelled.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

### (b) Post-IPO share option scheme

The principal purpose of the Post-IPO share option scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long term success and prosperity.

The eligible participants of the Post-IPO share option scheme are the directors of the Company and its subsidiaries and full-time employees of the Group. The Post-IPO share option scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 19 February 2001.

Under the Post-IPO share option scheme, the maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company in issue at any time for which Post-IPO share options may be granted under the Post-IPO share option scheme. However, following the introduction of the revised Chapter 23 of the GEM Listing Rules, the initial total number of shares which may be issued upon exercise of an option to be granted under the Post-IPO share option scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company immediately following the listing of the shares of the Company on GEM. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO share option scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time. The number of shares issued and to be issued upon exercise of all options granted and to be granted to the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's independent shareholders.

The maximum number of shares issued and to be issued upon exercise of the options granted under the Post-IPO share option scheme and any other share option schemes of the Company to any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

### (b) Post-IPO share option scheme (continued)

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and shall not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the Post-IPO share option scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The following share options were outstanding under the scheme during the year:

Name or category of participant	Number of share options					At 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	As at 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2002				
<b>Other employees</b>									
In aggregate	2,700,000	-	-	(2,700,000)*	-	19 February 2001	Note 1	0.25	

\* Share options lapsed upon the resignation of the employees of the Group during the year.

Notes:

- These share options are exercisable by the employees during a period of five years after completion of his/her first year of service with the Group.
- Subsequent to the balance sheet date, on 21 January 2003, 26,000,000 share options with an exercise price of HK\$0.1148 per share were granted to four executive directors and four full time employees of the Group for the subscription of ordinary shares in the Company. These share options are exercisable during a period of five years after the relevant director/employee having completed his/her first year of service with the Group.

Details of the Company's share option scheme are also set out in note 22 to the financial statements.



# Report of the Directors

## SHARE OPTION SCHEME (continued)

### (b) Post-IPO share option scheme (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the 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.

## SUBSTANTIAL SHAREHOLDERS

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

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of the Company's share capital</b>
global.com Investments Corp. (Note 1)	155,570,000	20.6
Glory Cyber Company Limited (Note 2)	100,000,000	13.3
Sun Wah Net Investment Limited ("Sun Wah") (Note 3)	95,474,000	12.7
Tai Lee Assets Limited (Note 4)	94,406,000	12.5
Ceroilfood Finance Limited (Note 5)	84,910,000	11.3

Notes:

- (1) global.com Investments Corp. is a company wholly-owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of the units of which are owned by The YFC Family Trust, a discretionary trust of which Yuen Chi Mann, Celina and Yuen Chi Tsen, Ronnie, children of Mr. Yuen, a former director of the Company, are the only beneficiaries. The balance of 0.1% of the units of The YFC Unit Trust is held by Mr. Yuen's mother. Mr. Yuen is the settlor of The YFC Family Trust.
- (2) Glory Cyber Company Limited is a company incorporated in Hong Kong with limited liability, the issued share capital of which is owned as to 70% by Mr. Luan and 30% by Mr. Chan Kam Wai, Stephen. Subsequent to the year end, Mr. Luan was appointed as an executive director and the vice-chairman of the Company.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS (continued)

- (3) Sun Wah is a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, the brother of Mr. Choi. As at the date of this report, Sun Wah is also the holder of convertible redeemable notes of an aggregate principal amount of HK\$13 million issued by the Company. Upon full conversion of the notes, Sun Wah will hold additional interests ranging from approximately 18.8% to 27.0% of the enlarged issued share capital of the Company without taking into account any of the shares which may fall to be issued upon the exercise of any share options and upon conversion of the other remaining convertible redeemable notes, outstanding as at the date of this report.
- (4) Tai Lee Assets Limited is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi.
- (5) Ceroilfood Finance Limited is a wholly-owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state-owned enterprise, which is principally engaged in importing and exporting of cereals, oil and foodstuffs in The People's Republic of China.

Save as disclosed above, the Directors are not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 31 December 2002 which was required to be recorded under Section 16(1) of the SDI Ordinance.

## CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in notes 19(iii), 24(vi), 24(vii) and 24(viii) to the financial statements.

As set out in the Prospectus, the Company has applied for a waiver from strict compliance with the disclosure requirement under Chapter 20 of the GEM Listing Rules in relation to the provision of agency services and technical support services by the Group to 中山市金科信息網絡有限公司 (Zhongshan Information Network Limited (an unofficial English translation)) ("STINET"). Such transactions between the parties are connected transactions (within the meaning of the GEM Listing Rules) for the Company. Details of such connected transactions and the relationships between the parties are set out in the Prospectus.

One of the conditions of the waiver granted by the Stock Exchange in relation to such connected transactions is that details of such connected transactions shall be disclosed in the Company's annual report for the relevant year as set out in Rules 20.34 (1) to (5) of the GEM Listing Rules. The Directors confirm that such connected transactions have been discontinued since January 2002. Accordingly, this condition, together with other conditions, of the waiver in respect of such connected transactions are no longer required to be complied with.

# Report of the Directors

## ADVANCE TO ENTITIES

In compliance with Rules 17.15 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the issuer or any of its subsidiaries exceeds 25% of the issuer's net tangible assets.

The Group recorded net deficiencies in assets of approximately HK\$7.4 million as at 31 December 2002. As the net tangible value of the Group was negative, any trade receivables ("Trade Receivables") and other receivables ("Other Receivables") of the Group as at 31 December 2002 would technically give rise to a disclosure obligation under Rules 17.15 and 17.17 of the GEM Listing Rules. The Group continues to record net deficiencies in assets as at the date of this annual report.

Details of the Trade Receivables and Other Receivables are as follows:

<b>Trade Receivables</b>	<b>As at 31 December 2002</b>
Name of customer	HK\$'000
FCB Hong Kong Ltd	100
Draft Worldwide Ltd	43
Opals Mine Factory Ltd	4
Z-Tech Industrial Company	2
Edelweiss Jewellery (Far East) Ltd	1
	150

<b>Other Receivables</b>	<b>As at 31 December 2002</b>
	HK\$'000
Rental and utility deposits (note 1)	598
Prepayments (note 2)	294
	892

Notes:

1. The deposits paid comprise the following items:	HK\$'000
Rental deposit for 7/F, Man Yee Building paid to Man Hing Hong Land Investment Co., Ltd	379
Rental deposit for 9/F, Man Yee Building paid to Sun Wah Hi-Tech (H.K.) Ltd	210
Electricity deposit for 7/F, Man Yee Building paid to The Hongkong Electric Co., Ltd.	7
Others	2
	598

# Report of the Directors

## ADVANCE TO ENTITIES (continued)

2. The breakdown of the prepayments is as follows:

	HK\$'000
Annual listing fee 2003 paid to the Stock Exchange	150
Sponsor's fee covering the period from January 2003 to March 2003 paid to Celestial Capital limited	75
Accounting software maintenance fee for January 2003 to October 2003 paid to System Union Limited	32
2003 government annual fee paid to the government of the Cayman Islands	19
Others	18
	<hr/> <hr/> 294

The Trade Receivables were resulted from the provision of Internet-based application, web page design services and web site maintenance by the Group to such customers. The Other Receivables were paid by the Group either as deposits or under pre-existing legal obligations made in the ordinary course of business of the Group.

The Trade Receivables are unsecured, interest free and their repayment terms range from one to three months. The Other Receivables are also unsecured. .

## CONTRACT OF SIGNIFICANCE

During the year, the Group has not entered into any contract of significance with its controlling shareholder or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 27 to the financial statements.

## SPONSOR'S INTERESTS

Pursuant to the agreement entered into between the Company and Celestial Capital Limited ("CCL"), the sponsor of the Company, CCL will act as the Company's continuing sponsor with effect from 1 October 2001 to 31 December 2003.

At the date of this report and as at 31 December 2002, CCL, its directors, employees and associates, 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.

# Report of the Directors

## AUDIT COMMITTEE

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising two independent non-executive Directors, Messrs. Cho Po Hong, Jimmy (Committee Chairman) and Chan Yan Tin, Andrew, and one executive Director, Mr. Chow. The primary duties of the audit committee is to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee held four meetings. The Group's financial statements for the year ended 31 December 2002 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## COMPETITION AND CONFLICT OF INTERESTS

Mr. Luan is currently in control of a group of companies in the PRC and Hong Kong (the "GF Group") principally engaged in the software development and trading of computer hardware and software. Glory Cyber Group Limited, being a substantial shareholder of the Company, is one of the members of the GF Group. As the Group is considering to expand its business activities to include software development activity, the business of Mr. Luan may compete with the potential business of the Group.

Save as disclosed above, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period covered by the annual report.

## AUDITORS

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

There was no change in the auditors of the Company in the preceding three years.

ON BEHALF OF THE BOARD

**Choi Koon Ming**

*Chairman*

Hong Kong

26 March 2003

# Report of the Auditors



安永會計師事務所

To the members

## **Glory Future Group Limited**

(Formerly E-silkroad Holdings Limited)

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

We have audited the financial statements on pages 30 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

## **BASIS OF OPINION**

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

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

## **OPINION**

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

## **Ernst & Young**

*Certified Public Accountants*

Hong Kong

26 March 2003

# Consolidated Profit and Loss Account

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	6	785	6,543
Cost of sales		(953)	(4,526)
Gross profit/(loss)		(168)	2,017
Other revenue		137	445
Selling and distribution expenses		(342)	(7,034)
Administrative expenses		(8,909)	(19,997)
Research and development costs		–	(555)
Other operating expenses		(461)	(2,088)
<b>LOSS FROM OPERATING ACTIVITIES</b>	7	<b>(9,743)</b>	(27,212)
Finance costs	8	(945)	(653)
<b>LOSS BEFORE TAX</b>		<b>(10,688)</b>	(27,865)
Tax	11	–	–
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(10,688)</b>	(27,865)
Minority interests		150	175
<b>NET LOSS FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>(10,538)</b>	(27,690)
LOSS PER SHARE – Basic	13	HK1.61 cents	HK4.40 cents

# Consolidated Balance Sheet

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	117	3,415
<b>CURRENT ASSETS</b>			
Accounts receivable	16	150	109
Prepayments, deposits and other receivables		892	1,374
Pledged bank deposit		–	200
Cash and bank balances		6,460	3,775
		<b>7,502</b>	5,458
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	(112)	(94)
Accrued liabilities, deposits and other payables		(1,237)	(2,571)
Finance lease payables	18	–	(210)
Convertible redeemable notes	19	–	(1,250)
Provision	20	(283)	(200)
		<b>(1,632)</b>	(4,325)
<b>NET CURRENT ASSETS</b>			
		<b>5,870</b>	1,133
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>5,987</b>	4,548
<b>NON-CURRENT LIABILITIES</b>			
Due to a minority shareholder of a subsidiary	21	(401)	(979)
Finance lease payables	18	–	(123)
Convertible redeemable notes	19	(13,000)	(6,000)
		<b>(13,401)</b>	(7,102)
		<b>(7,414)</b>	(2,554)
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	37,686	32,686
Reserves	23	(45,100)	(35,240)
		<b>(7,414)</b>	(2,554)

**Choi Koon Ming**  
Director

**Hui Ching Shan**  
Director



# Consolidated Statement of Changes in Equity

Year ended 31 December 2002

	Issued capital HK\$'000	Share premium account HK\$'000	Accumulated losses HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 January 2001	76	19,129	(22,658)	(14)	(3,467)
Conversion of convertible redeemable notes	971	2,428	–	–	3,399
Issue of new shares	6,523	26,091	–	–	32,614
Capitalisation of shares issued	25,044	(25,044)	–	–	–
Listing and share issue expenses	–	(7,772)	–	–	(7,772)
Exercise of share options	72	288	–	–	360
Exchange adjustment	–	–	–	2	2
Net gains and losses not recognised in the profit and loss account	–	–	–	2	2
Loss for the year	–	–	(27,690)	–	(27,690)
At 31 December 2001 and 1 January 2002	32,686	15,120	(50,348)	(12)	(2,554)
Issue of new shares	5,000	1,000	–	–	6,000
Share issue expenses	–	(324)	–	–	(324)
Exchange adjustment	–	–	–	2	2
Net gains and losses not recognised in the profit and loss account	–	–	–	2	2
Loss for the year	–	–	(10,538)	–	(10,538)
At 31 December 2002	37,686	15,796	(60,886)	(10)	(7,414)

# Consolidated Cash Flow Statement

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(10,688)</b>	(27,865)
Adjustments for:			
Depreciation	7	<b>1,655</b>	2,767
Provision for doubtful debts	7	<b>82</b>	361
Provision for legal costs	7	<b>133</b>	200
Provision for impairment of fixed assets	7	<b>461</b>	2,088
Loss on disposal of fixed assets	7	<b>296</b>	118
Interest income	7	<b>(85)</b>	(384)
Interest expense	8	<b>945</b>	653
Operating loss before working capital changes		<b>(7,201)</b>	(22,062)
Increase in accounts receivable		<b>(123)</b>	(49)
Decrease in prepayments, deposits and other receivables		<b>482</b>	607
Increase/(decrease) in accounts payable		<b>112</b>	(331)
Decrease in accrued liabilities, deposits, other payables and provision		<b>(995)</b>	(1,489)
Increase/(decrease) in an amount due to a minority shareholder of a subsidiary		<b>(157)</b>	495
Decrease in an amount due to a related company		<b>-</b>	(143)
Cash used in operations		<b>(7,882)</b>	(22,972)
Interest paid		<b>(945)</b>	(653)
Net cash outflow from operating activities		<b>(8,827)</b>	(23,625)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		<b>-</b>	(2,994)
Proceeds from disposal of fixed assets		<b>19</b>	25
Decrease in a pledged bank deposit		<b>200</b>	200
Interest received		<b>85</b>	384
Net cash inflow/(outflow) from investing activities		<b>304</b>	(2,385)

# Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	6,000	32,614
Share issue expenses	(324)	(7,772)
Proceeds from issue of convertible redeemable notes	7,000	8,000
Redemption of convertible redeemable notes	(1,250)	(4,001)
Exercise of share options	–	360
Capital element of finance lease rental payments	(220)	(218)
Contribution from a minority shareholder of a subsidiary	–	175
Net cash inflow from financing activities	<b>11,206</b>	29,158
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,683</b>	3,148
Cash and cash equivalents at beginning of year	<b>3,775</b>	639
Effect of foreign exchange rate changes, net	<b>2</b>	(12)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>6,460</b>	3,775
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>6,460</b>	3,775

# Balance Sheet

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	–	1,288
<b>CURRENT ASSETS</b>			
Prepayments		244	225
Cash and bank balances		6,155	3,490
		<b>6,399</b>	3,715
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		(473)	(307)
Convertible redeemable notes	19	–	(1,250)
		<b>(473)</b>	(1,557)
<b>NET CURRENT ASSETS</b>		<b>5,926</b>	2,158
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,926</b>	3,446
<b>NON-CURRENT LIABILITIES</b>			
Convertible redeemable notes	19	(13,000)	(6,000)
		<b>(7,074)</b>	(2,554)
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	37,686	32,686
Reserves	23	(44,760)	(35,240)
		<b>(7,074)</b>	(2,554)

**Choi Koon Ming**  
Director

**Hui Ching Shan**  
Director

# Notes to Financial Statements

31 December 2002

## 1. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group and the Company had net deficiencies in assets as at 31 December 2002. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing and operating measures executed during the year and subsequent to the balance sheet date, which include the following:

- (i) On 31 December 2002, 100,000,000 ordinary shares of HK\$0.05 each in the capital of the Company were issued to Glory Cyber Company Limited ("Glory Cyber") at a price of HK\$0.06 per share. The proceeds of the issuance of shares, before expenses, amounted to HK\$6,000,000. The purpose of the issuance of shares was to provide working capital to the Group.
- (ii) Subsequent to the balance sheet date, Mr. Luan Shu Sheng ("Mr. Luan"), a director of the Company, advanced approximately HK\$560,000 to the Group. The advance is unsecured and interest-free. Mr. Luan has undertaken not to demand repayment of such advance before 1 January 2004.
- (iii) On 3 February 2001, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note to Sun Wah Net Investment Limited ("Sun Wah") which would mature on 19 August 2003. Sun Wah is a substantial shareholder of the Company. The principal amount of the note outstanding as at 31 December 2002 was HK\$6 million. On 27 February 2002, an undertaking was made by Sun Wah either to convert the note into ordinary shares of the Company upon its maturity date on 19 August 2003, or to extend the maturity date to a date not earlier than five months after 19 August 2003. Accordingly, the principal of the convertible redeemable note has been classified as a non-current liability of the Group and the Company. Further details of the note are set out in note 19 to the financial statements.
- (iv) During the year, the directors scaled down certain unprofitable operations in Zhongshan, Guangzhou and Shunde in the People's Republic of China (the "PRC") so as to minimise the operating costs. In order to further develop the principal activities of the Group, especially the provision of technical support and agency services, the directors are considering different business strategies in broadening the Group's income sources and client base. The directors have budgeted for the anticipated costs and expect that the new business strategies will improve the profitability and cash flows of the Group.

The directors are of the opinion that, in view of the measures taken to date, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

# Notes to Financial Statements

31 December 2002

## 2. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- providing Internet-based application and web page design services
- provision of web site maintenance services

## 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- 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 adopting 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. Its principal impact on these financial statements is that a consolidated statement of changes in equity is now presented in place of a consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

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, rather than translated at the exchange rates at the balance sheet date as was previously required. Further details about the impact of this SSAP are described in the accounting policy for "Foreign currencies" in note 4 to the financial statements.

### **3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)**

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, 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. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 4 to the financial statements.

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. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 22 to the financial statements. The disclosures in respect of the share option scheme included in note 22 to the financial statements are similar to the disclosures pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") previously required to be included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

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

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 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.

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

### 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.

### Related parties

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

### Impairment of assets

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

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

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

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



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

### Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

Furniture, fixtures and fittings	3 to 5 years
Computer and office equipment	3 years
Motor vehicles	5 years

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

### Finance leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessees are accounted for as finance leases. At the inception of a finance lease, the Group records the transaction as if the leased assets were sold.

The amounts due from the lessees under finance leases are recorded in the consolidated balance sheet as other receivables. The amounts comprise the gross investment in the finance leases less gross earnings allocated to future accounting periods.

The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

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

### Finance leases (continued)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

### Operating leases

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

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and on 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 the balance sheet, cash and bank balances comprise cash at bank and on hand, including short term deposits and assets similar in nature to cash, which are not restricted as to use.

### 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for legal costs are made based on the present value of the future costs expected to be incurred.

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

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, 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.

### 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) income from the provision of services, when the relevant services have been rendered; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated 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.

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

### Research and development costs

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

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

### Retirement benefits scheme

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

The Group's subsidiary in the PRC is required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages of those eligible employees and are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable to the defined contribution retirement benefits scheme.

### Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. 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 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, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

## 5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that segment information presented by business segment is its primary segment reporting format and that presented by geographical segment is its secondary segment reporting format.

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

- (a) the provision of Internet-based application and web page design services segment provides online trade show and exhibition services and web page development work;
- (b) the web site maintenance segment represents the provision of monthly service for maintaining and updating web site; and
- (c) the provision of technical support and agency services segment includes the provision of consultation services relating to the implementation and application of computer systems and introducing customers for web site hosting, e-mail box services, domain name registration and international trading and business information services.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# Notes to Financial Statements

31 December 2002

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments

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

	Internet-based application and web page design services		Web site maintenance services		Technical support and agency services		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
Segment revenue:										
Sales to external customers	695	4,764	90	327	-	1,452	-	-	785	6,543
Intersegment sales	-	761	-	-	-	-	-	(761)	-	-
Total	695	5,525	90	327	-	1,452	-	(761)	785	6,543
Segment results	(391)	(4,865)	(118)	(1,005)	-	298	-	-	(509)	(5,572)
Interest income									85	384
Other revenue									52	61
Unallocated expenses									(9,371)	(22,085)
Loss from operating activities									(9,743)	(27,212)
Finance costs									(945)	(653)
Loss before tax									(10,688)	(27,865)
Tax									-	-
Loss before minority interests									(10,688)	(27,865)
Minority interests									150	175
Net loss from ordinary activities attributable to shareholders									(10,538)	(27,690)

# Notes to Financial Statements

31 December 2002

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

	Internet-based application and web page design services		Web site maintenance services		Technical support and agency services		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
Segment assets	236	2,964	35	542	-	199	-	-	271	3,705
Unallocated assets									7,348	5,168
Total assets									7,619	8,873
Segment liabilities	346	737	-	37	-	136	-	-	346	910
Unallocated liabilities									14,687	10,517
Total liabilities									15,033	11,427
Other segment information:										
Depreciation	1,262	2,130	393	362	-	275	-	-	1,655	2,767
Impairment loss recognised in the profit and loss account	352	1,466	109	-	-	622	-	-	461	2,088
Other non-cash expenses	455	486	56	193	-	-	-	-	511	679
Capital expenditure	-	2,310	-	189	-	653	-	-	-	3,152

# Notes to Financial Statements

31 December 2002

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

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

	Hong Kong		PRC		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	381	1,665	404	4,878	-	-	785	6,543
Other segment information:								
Segment assets	7,570	7,573	49	1,300	-	-	7,619	8,873
Capital expenditure	-	961	-	2,191	-	-	-	3,152

## 6. TURNOVER

Turnover represents the net invoiced value of services rendered.



# Notes to Financial Statements

31 December 2002

## 7. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000
Cost of services provided	953	4,526
Auditors' remuneration	310	380
Staff costs (excluding directors' remuneration – note 9)*	1,682	11,376
Pension scheme contributions (excluding directors' remuneration – note 9)*	58	221
Provision for doubtful debts	82	361
Depreciation	1,655	2,767
Research and development costs	–	555
Provision for legal costs	133	200
Provision for impairment of fixed assets	461	2,088
Loss on disposal of fixed assets	296	118
Minimum lease payments under operating leases:		
Land and buildings	1,874	2,368
Equipment	–	104
Exchange losses/(gains), net	4	(28)
Interest income	(85)	(384)

\* Cost of services provided included HK\$601,000 (2001: HK\$3,300,000) relating to staff costs which is also included in the respective total amount disclosed above.

## 8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts	2	22
Interest on finance leases	11	54
Interest on convertible redeemable notes	932	577
	945	653

# Notes to Financial Statements

31 December 2002

## 9. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	–	33
	–	33
Other emoluments of executive directors:		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	935	2,371
Pension scheme contributions	22	53
	957	2,424

None of the non-executive or independent non-executive directors received any fees or other reimbursements or emoluments for the year ended 31 December 2002. Two independent non-executive directors received individual fees of approximately HK\$16,500 each for the year ended 31 December 2001.

Three (2001: four) executive directors received individual emoluments of approximately HK\$612,000, HK\$210,000 and HK\$135,000 (2001: HK\$779,000, HK\$677,000, HK\$644,000 and HK\$324,000) during the year ended 31 December 2002. No emoluments were paid to the remaining two (2001: four) executive directors during the year.

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

# Notes to Financial Statements

31 December 2002

## 9. DIRECTORS' REMUNERATION (continued)

In addition to the above remuneration, share options were granted to certain directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors in note 22 to the financial statements.

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

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	618	328
Performance related bonuses	–	360
Pension scheme contributions	21	7
	639	695

The remuneration of the remaining two (2001: two) non-director, highest paid employees during the years ended 31 December 2002 and 2001 fell within the range of nil to HK\$1,000,000.

During the year, no emolument were paid by the Group to the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

# Notes to Financial Statements

31 December 2002

## 11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2001: Nil).

Provision for the tax of profits of subsidiaries operating outside Hong Kong has not been calculated as the Group did not generate any assessable profits in the respective jurisdictions during the year (2001: Nil).

The Group did not have any significant unprovided deferred tax in respect of the year.

There are no significant potential deferred tax liabilities for which provision has not been made.

## 12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was HK\$10,196,000 (2001: HK\$27,688,000).

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$10,538,000 (2001: HK\$27,690,000) and the weighted average number of 653,993,973 (2001: 629,188,603) ordinary shares of the Company in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2002 and 2001 have not been presented as the share options outstanding during these two years had an anti-dilutive effect on the basic loss per share for both years.

# Notes to Financial Statements

31 December 2002

## 14. FIXED ASSETS

Group

	Furniture, fixtures and fittings HK\$'000	Computer and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	3,345	5,856	248	9,449
Disposals	(1,162)	(3,668)	(248)	(5,078)
At 31 December 2002	2,183	2,188	–	4,371
Accumulated depreciation and impairment:				
At beginning of year	2,179	3,805	50	6,034
Provided during the year	699	940	16	1,655
Impairment during the year recognised in the profit and loss account	238	223	–	461
Disposals	(933)	(2,897)	(66)	(3,896)
At 31 December 2002	2,183	2,071	–	4,254
Net book value:				
At 31 December 2002	–	117	–	117
At 31 December 2001	1,166	2,051	198	3,415

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–
Due from subsidiaries	–	1,288
	–	1,288

# Notes to Financial Statements

31 December 2002

## 15. INTERESTS IN SUBSIDIARIES (continued)

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
E-silkroad.net Corporation	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	HK\$10,000	–	100%	Development of e-commerce business
E-silkroad.net Online Commerce Limited	Hong Kong	HK\$10,000	–	100%	Dormant
Business Essence Technology Limited	British Virgin Islands	US\$1	–	100%	Investment holding
E-silkroad.net Resources Limited	British Virgin Islands	US\$1	–	100%	Dormant
中山市絲綢路網絡 動力有限公司 ("Zhongshan E-silkroad")	PRC	HK\$8,000,000*	–	95%	Provision of web page design service and technical support services

\* The paid-up registered capital of Zhongshan E-silkroad was increased from HK\$5,000,000 as at 31 December 2001 to HK\$8,000,000 as at 31 December 2002. The amount of paid-up capital contributed by the minority shareholder was fulfilled by converting the advances made by the minority shareholder, which was included in the amount due to a minority shareholder of a subsidiary, in prior years.

# Notes to Financial Statements

31 December 2002

## 16. ACCOUNTS RECEIVABLE

A defined credit policy is maintained within the Group. The general credit terms range from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of accounts receivable is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current – 3 months	144	108
Over 3 months	6	1
	<b>150</b>	<b>109</b>

## 17. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current – 3 months	–	10
Over 3 months	112	84
	<b>112</b>	<b>94</b>

# Notes to Financial Statements

31 December 2002

## 18. FINANCE LEASE PAYABLES

The Group conducted a portion of its operations using certain leased computer and office equipment and motor vehicle. These leases were classified as finance leases and had remaining lease terms ranging from less than one year to three years as at 31 December 2001.

The total future minimum lease payments under finance leases and their present values, were as follows:

### Group

	<b>Minimum lease payments 2002 HK\$'000</b>	Minimum lease payments 2001 HK\$'000	<b>Present value of minimum lease payments 2002 HK\$'000</b>	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	–	229	–	216
In the second year	–	79	–	71
In the third to fifth years, inclusive	–	53	–	46
Total minimum finance lease payments	–	361	–	333
Future finance charges	–	(28)		
Total net finance lease payables	–	333		
Portion classified as current liabilities	–	(210)		
Long term portion	–	123		

During the year, the Group disposed of its leased motor vehicle. The amount of the principal paid by the Group in the current year amounted to HK\$81,000. The obligation of the Group on the outstanding principal, amounting to HK\$113,000, was then released.



# Notes to Financial Statements

31 December 2002

## 19. CONVERTIBLE REDEEMABLE NOTES

	Notes	Group and Company	
		2002 HK\$'000	2001 HK\$'000
At beginning of year	(i), (ii)	<b>7,250</b>	6,650
New issue	(iii)	<b>7,000</b>	8,000
Converted into ordinary shares of the Company		–	(3,399)
Cash redemption	(iv)	<b>(1,250)</b>	(4,001)
At end of year		<b>13,000</b>	7,250
Portion classified as current liabilities	(v)	–	(1,250)
Long term portion		<b>13,000</b>	6,000

Notes:

- (i) On 1 September 2000, the Company entered into a subscription agreement in relation to the issue of a convertible redeemable note to an independent third party (the "Subscriber") for the principal amount of HK\$1.25 million. Such convertible redeemable note was unsecured and bore interest at 5% per annum. The Subscriber had the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each in the capital of the Company at a price of HK\$0.175 per ordinary share during the period from 1 April 2001 to 31 December 2001. On 28 January 2002, the Company entered into a supplemental deed with the Subscriber to extend the repayment date from 31 December 2001 to 30 April 2002.
- (ii) On 3 February 2001, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note to Sun Wah for the principal amount of HK\$8 million. Sun Wah is a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, the brother of the chairman of the Company.

The convertible redeemable note is unsecured and bears interest at 8% per annum. Under the terms of this note, Sun Wah has the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.175 per ordinary share during the period from 2 March 2002 to 19 August 2003, or to redeem the note in cash upon its maturity on 19 August 2003. On 4 April 2001, the Company paid HK\$2 million to Sun Wah by way of partial redemption. The principal amount was then reduced to HK\$6 million.

# Notes to Financial Statements

31 December 2002

## 19. CONVERTIBLE REDEEMABLE NOTES (continued)

Notes: (continued)

- (iii) On 28 March 2002, the Company issued a convertible redeemable note to Sun Wah for the principal amount of HK\$7 million. Such convertible note is unsecured and bears interest at 8% per annum. Under the terms of this note, the Company may redeem the whole or part of the principal amount at any time before the maturity date on 28 March 2005, subject to the right of Sun Wah to convert the amount that the Company is exercising into ordinary shares of HK\$0.05 each in the capital of the Company. Furthermore, Sun Wah has the right to redeem the whole or part of the principal amount in cash or convert the whole or part of the principal amount into ordinary shares of HK\$0.05 each in the capital of the Company at a price of HK\$0.05 per ordinary share, subject to adjustment, at any time before the maturity date on 28 March 2005. In such circumstances, the Company may, instead of redeeming the note or such part thereof in cash at the face value of the note plus interest, elect to satisfy the redemption by the issue of ordinary shares of the Company.

The Company will only redeem the whole or such part thereof, or elect to satisfy the redemption request made by Sun Wah, in cash, if the adequacy of working capital and liquidity of the Group is not impaired by such cash redemption. The directors of the Company have confirmed that the possibility of the Company redeeming the whole or such part thereof, or elect to satisfy the redemption request made by Sun Wah, in cash in the twelve month period after the balance sheet date, is remote. Accordingly, the principal of the convertible redeemable note has been classified as a non-current liability of the Group and the Company.

- (iv) On 30 April 2002, the Company paid HK\$1.25 million to Tai Lee Assets Limited under the instruction of the Subscriber to redeem the convertible redeemable note as detailed in (i) above. Tai Lee Assets Limited, which became a substantial shareholder of the Company on 17 December 2002, is beneficially owned by Ms. Tsoi Siu Lan, Maize, sister of the chairman of the Company.
- (v) On 27 February 2002, an undertaking was made by Sun Wah either to convert the note as detailed in (ii) above into ordinary shares of the Company upon its maturity date on 19 August 2003, or to extend the maturity date to a date not earlier than five months after 19 August 2003. Accordingly, the principal of the convertible redeemable note has been classified as a non-current liability of the Group and the Company.

## 20. PROVISION

	Group	
	2002	2001
	HK\$'000	HK\$'000
Provision for legal costs:		
At beginning of year	200	–
Provided during the year	133	200
Amount utilised during the year	(50)	–
At 31 December	283	200

# Notes to Financial Statements

31 December 2002

## 20. PROVISION (continued)

The Group was involved in a legal proceeding initiated by a former employee (the "Plaintiff"). Subsequent to the year end, a mutual agreement was reached between the Plaintiff and the Group. After seeking independent legal advice, the Company's directors have estimated the amount for full settlement of such claim and the related incidental legal and other professional costs as at 31 December 2002 to be approximately HK\$283,000.

## 21. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured and interest-free. The minority shareholder has undertaken not to demand repayment within a period of twelve months from the balance sheet date.

## 22. SHARE CAPITAL

Shares	2002 HK\$'000	2001 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	100,000	100,000
Issued and fully paid:		
753,720,000 (2001: 653,720,000) ordinary shares of HK\$0.05 each	37,686	32,686

## 22. SHARE CAPITAL (continued)

During the years ended 31 December 2002 and 2001, the following changes in the Company's issued share capital took place:

- (i) Pursuant to a written resolution of all the shareholders of the Company passed on 19 February 2001, the following changes in the share capital of the Company took place:
  - (a) Each of the ordinary shares of US\$1 in the capital of the Company was converted into one share of HK\$7.80.
  - (b) Each of the ordinary shares of HK\$7.80 in the capital of the Company resulting from the conversion stated in (a) above was subdivided into 156 shares of HK\$0.05 each.
  - (c) The authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of 1,992,200,000 additional ordinary shares of HK\$0.05 each.
  - (d) The Company issued 500,880,248 shares of HK\$0.05 each to the holders of the shares on the register of members of the Company at the close of business on that date, credited as fully paid by way of capitalisation of the sum of HK\$25,044,012 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the listing of the Company's shares on the GEM of the Stock Exchange.
- (ii) On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of two of its convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company.
- (iii) Upon the listing of the Company's shares on the GEM of the Stock Exchange, on 2 March 2001, 130,456,000 ordinary shares of HK\$0.05 each of the Company were issued for a cash consideration, before expenses, of HK\$32,614,000.
- (iv) On 14 July 2001, share options to subscribe for 1,440,000 shares in the Company under the Company's share option scheme were exercised and accordingly, 1,440,000 shares were issued for a total consideration of HK\$360,000.
- (v) On 31 December 2002, 100,000,000 ordinary shares of HK\$0.05 each in the capital of the Company were issued to Glory Cyber at a price of HK\$0.06 per share.

# Notes to Financial Statements

31 December 2002

## 22. SHARE CAPITAL (continued)

A summary of the above transactions is as follows:

	Notes	Number of issued shares	Par value HK\$'000
At 1 January 2001		9,742	76
Share sub-division	(i)(b)	1,510,010	–
Capitalisation of share premium account	(i)(d)	500,880,248	25,044
Shares issued on conversion of convertible redeemable notes	(ii)	19,424,000	971
New issues on public share issue and placing of shares	(iii)	130,456,000	6,523
Exercise of share options	(iv)	1,440,000	72
At 31 December 2001 and 1 January 2002		653,720,000	32,686
New shares issued	(v)	100,000,000	5,000
At 31 December 2002		753,720,000	37,686

## 22. SHARE CAPITAL (continued)

### Share option scheme

The particulars of the Company's pre-Initial Public offering ("IPO") share options and post-IPO share option scheme are disclosed below:

#### (a) Pre-IPO share options

The pre-IPO share options were granted to certain directors and former directors to recognise their significant contribution to the growth of the Group prior to the listing of the shares of the Company on the GEM.

- (i) On 1 March 2000, the Company granted options to certain former directors of the Company which are exercisable during a period of five years commencing from 2 March 2001, the date of commencement of dealings in the shares on the GEM. The total number of such pre-IPO share options outstanding as at 1 January 2002 and 31 December 2002 was both 39,136,800. The exercise price of share options is HK\$0.125 per share.

As at 31 December 2002, the number of shares issuable under these share options granted represented approximately 5.2% of the Company's shares in issue as at that date.

Subsequent to the balance sheet date, all of these share options granted to the former directors of the Company were cancelled.

# Notes to Financial Statements

31 December 2002

## 22. SHARE CAPITAL (continued)

### (a) Pre-IPO share options (continued)

- (ii) On 25 October 2000, the Company granted options to certain directors of the Company which are exercisable during a period of three years commencing from the date of their respective first completed year of service with the Company.

Details of these options are as follows:

	Number of shares underlying the pre-IPO share options as at 1 January and 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<b>Directors</b>				
Mr. Choi Koon Ming	5,024,000	25 October 2000	8 August 2001 to 7 August 2004	0.25
Mr. Hui Ching Shan	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
Mr. Ha Kee Choy, Eugene	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
	<u>15,072,000</u>			

As at 31 December 2002, the number of shares issuable under these share options granted represented approximately 2% of the Company's shares in issue as at that date.

Subsequent to the balance sheet date, the pre-IPO share options entitling Mr. Ha Kee Choy, Eugene to subscribe for 5,024,000 shares were cancelled.

## 22. SHARE CAPITAL (continued)

### (b) Post-IPO share option scheme

The principal purpose of the Post-IPO share option scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long term success and prosperity.

The eligible participants of the Post-IPO share option scheme are the directors of the Company and its subsidiaries and full-time employees of the Group. The Post-IPO share option scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 19 February 2001.

Under the Post-IPO share option scheme, the maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company in issue at any time for which Post-IPO share options may be granted under the Post-IPO share option scheme. However, following the introduction of the revised Chapter 23 of the Listing Rules, the initial total number of shares which may be issued upon exercise of an option to be granted under the Post-IPO share option scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company immediately following the listing of the shares of the Company on the GEM. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO share option scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time. The number of shares issued and to be issued upon exercise of all options granted and to be granted to the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's independent shareholders.

The maximum number of shares issued and to be issued upon exercise of the options granted under the Post-IPO share option scheme and any other share option schemes of the Company to any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting.



# Notes to Financial Statements

31 December 2002

## 22. SHARE CAPITAL (continued)

### (b) Post-IPO share option scheme (continued)

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and shall not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the Post-IPO share option scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The following share options were outstanding under the scheme during the year:

Name or category of participant	As at 1 January 2002	Number of share options			At 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
		Granted during the year	Exercised during the year	Lapsed during the year				
<b>Other employees</b>								
In aggregate	2,700,000	-	-	(2,700,000)*	-	19 February 2001	Note 1	0.25

\* Share options lapsed upon the resignation of the employees of the Group during the year.

Notes:

- These share options are exercisable by the employees during a period of five years after completion of his/her first year of service with the Group.
- Subsequent to the balance sheet date, on 21 January 2003, 26,000,000 share options with an exercise price of HK\$0.1148 per share were granted to four executive directors and four full time employees of the Group for the subscription of ordinary shares in the Company. These share options are exercisable during a period of five years after the relevant director/employee having completed his/her first year of service with the Group.

# Notes to Financial Statements

31 December 2002

## 22. SHARE CAPITAL (continued)

### (b) Post-IPO share option scheme (continued)

At the balance sheet date, the Company had 54,208,800 pre-IPO share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 54,208,800 additional shares of HK\$0.05 each with gross proceeds of approximately HK\$8,660,000. Up to the date of this report, none of the share options has been exercised.

## 23. RESERVES

### Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	19,129	(22,672)	(3,543)
Loss for the year	–	(27,688)	(27,688)
Conversion of convertible redeemable notes	2,428	–	2,428
Issue of new shares	26,091	–	26,091
Capitalisation of shares issued	(25,044)	–	(25,044)
Listing and share issue expenses	(7,772)	–	(7,772)
Exercise of share options	288	–	288
At 31 December 2001 and 1 January 2002	15,120	(50,360)	(35,240)
Loss for the year	–	(10,196)	(10,196)
Issue of new shares	1,000	–	1,000
Share issue expenses	(324)	–	(324)
At 31 December 2002	15,796	(60,556)	(44,760)

The share premium account of the Group and the Company arises on shares issued at a premium.

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 31 December 2002, the Company did not have any reserves available for distribution.

# Notes to Financial Statements

31 December 2002

## 24. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Technical service fees paid to SW e-solutions Limited	(i)	–	72
Equipment leasing charges paid to 中山市金科信息網絡有限公司 (“STINET”)	(ii)	–	104
Agency fees received from STINET	(iii)	–	(751)
Technical support fees received from STINET	(iv)	–	(701)
Service fee income for Internet-based application and web page design service received from Fujikon Industrial Holdings Limited (“Fujikon”)	(v)	–	(13)
Rental expenses paid to Sun Wah Hi-Tech (HK) Limited (“Sun Wah Hi-Tech”)	(vi)	<b>840</b>	630
Management fees paid to Sun Wah Hi-Tech	(vii)	<b>90</b>	236
Service fee income for Internet-based application and web page design service received from 新基科技(深圳)有限公司 (“Sun Kai”)	(viii)	<b>(57)</b>	–

## 24. RELATED PARTY TRANSACTIONS (continued)

- (i) SW e-solutions Limited is a fellow subsidiary of Sun Wah. The beneficial owner of Sun Wah is the brother of the chairman of the Company. Based on the technical support agreement, the technical service fees were calculated at HK\$8,000 per month, as determined between the Company and SW e-solutions Limited. The term of such agreement was 12 months commencing on 25 April 2000 and was further extended to 30 September 2001. No renewal or extension of such agreement was then made and no technical service fee was paid to SW e-solution Limited during the year.
- (ii) STINET is a minority shareholder of a subsidiary which held 5% of Zhongshan E-silkroad. The equipment leasing charge was calculated based on a fixed rate of RMB10,000 per month. The term of the equipment leasing agreement was three years starting from 21 April 2000. Pursuant to a termination agreement entered into between STINET and Zhongshan E-silkroad, the lease agreement was terminated on 1 December 2001.
- (iii) During the year ended 31 December 2001, agency fee income was received for introducing customers of Zhongshan E-silkroad to STINET for the provision of Internet-related services. The fee was calculated based on 30% of the net invoiced value received by STINET. The terms of the agency agreements were three years commencing on 21 April 2000 and 1 May 2000. No agency fee was received from STINET during the year.
- (iv) During the year ended 31 December 2001, income for the provision of technical support services was received from STINET. The fee was calculated based on 28% on the net invoiced value received by STINET. The term of the technical support service agreement was three years starting from 1 May 2000. No technical support fee was received from STINET during the year.
- (v) During the year ended 31 December 2001, service fee income received from Fujikon was mutually negotiated between the Group and Fujikon based on the specification as required by Fujikon. One of the former independent non-executive directors of the Company was also a director of Fujikon. No service fee income was received from Fujikon during the year.
- (vi) Sun Wah Hi-Tech is a fellow subsidiary of Sun Wah. The Group entered into a lease agreement in respect of the lease of office properties from Sun Wah Hi-Tech on 4 April 2001. The lease term was 12 months commencing on 4 April 2001 and the rental charge was HK\$70,000 per month. No renewal of the lease agreement was made after the expiry of the lease term and the Group continued to lease the office properties at a monthly rental charge of HK\$70,000 during the year.

## 24. RELATED PARTY TRANSACTIONS (continued)

- (vii) The management fee related to secretarial services provided by Sun Wah Hi-Tech was charged on a cost-plus basis. No management fee was payable from April 2002.
- (viii) Sun Kai is a fellow subsidiary of Sun Wah. The fee was mutually negotiated between the Group and Sun Kai based on the specification as required by Sun Kai.
- (ix) On 26 February 2002, the Group entered into a custody agreement (the "Custody Agreement") with STINET. Pursuant to the Custody Agreement, the custody fee for safeguarding certain of the Group's fixed assets in the PRC by STINET for a term of 12 months from 26 February 2002 was approximately HK\$113,000. The fee was mutually negotiated between the Group and STINET. During the abovementioned period, most of the fixed assets which were under the custody of STINET were damaged.

On 30 August 2002, a written agreement was entered into between the Group and STINET, in which STINET agreed to pay a sum of approximately HK\$106,000 as compensation to the Group. The compensation amount was determined based on an appraisal report jointly prepared by two appraisal firms in the PRC. The net compensation amount received by the Group, after setting off against the outstanding custody fee payable to STINET of HK\$87,000, was HK\$19,000. The fixed assets were then fully written off to the profit and loss account during the year.

- (x) On 15 February 2002, Zhongshan E-silkroad, as lessor, entered into four conditional five-year lease agreements with two independent third parties (the "Lessees") for the leasing of certain office and computer equipment in return for a total rental payment of approximately HK\$770,000. According to the terms of the agreements, the rentals should be fully settled within six months from 25 March 2002. The amount of unearned finance income as at 31 December 2002 was approximately HK\$88,000. During the year, the Lessees had fully settled the rental payment by paying the same amount to STINET under the instruction of the Group. The aforesaid arrangement was treated as partial settlement made by the Group on its amount due to STINET.
- (xi) During the year, accounts payable of approximately HK\$94,000 and accrued liabilities of approximately HK\$405,000 were settled by STINET on behalf of Zhongshan E-silkroad.

# Notes to Financial Statements

31 December 2002

## 24. RELATED PARTY TRANSACTIONS (continued)

(xii) During the year, STINET had agreed with Zhongshan E-silkroad to undertake and complete all contracts (the "Contracts") signed by Zhongshan E-silkroad during the period from April 2000 to December 2001 for the provision of Internet-related services. STINET and Zhongshan E-silkroad further agreed that Zhongshan E-silkroad would no longer have any rights or obligations on the Contracts.

According to the terms of the Contracts, deposits of approximately HK\$592,000 were received by Zhongshan E-silkroad in previous years. Pursuant to the abovementioned arrangement, STINET had guaranteed not to recover the deposits received by Zhongshan E-silkroad in previous years. As at 31 December 2002, certain contracts were completed by STINET and deposits of approximately HK\$358,000 received by Zhongshan E-silkroad brought forward from the prior year were recognised as turnover during the year.

## 25. OPERATING LEASE ARRANGEMENTS

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

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	438	1,850
In the second to fifth years, inclusive	–	779
	<b>438</b>	<b>2,629</b>

## 26. COMMITMENTS

At 31 December 2002, neither the Company, nor the Group had any commitments.

At 31 December 2001, the Group had contracted commitments in respect of an investment in a joint venture in the PRC amounting to HK\$171,000.

# Notes to Financial Statements

31 December 2002

## **27. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, Mr. Luan advanced approximately HK\$560,000 to the Group. The advance was unsecured and interest-free. Mr. Luan has undertaken not to demand repayment of such advance before 1 January 2004.

## **28. CONTINGENT LIABILITIES**

The Company and the Group had no significant contingent liabilities at the balance sheet date.

## **29. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 26 March 2003.

# Appendix

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2002 prepared on the basis set out in note 1 below.

### RESULTS

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
<b>TURNOVER</b>	<b>785</b>	6,543	3,080	–	–
<b>LOSS BEFORE TAX</b>	<b>(10,688)</b>	(27,865)	(20,028)	(749)	(1,956)
Tax	–	–	–	–	–
Loss before minority interests	<b>(10,688)</b>	(27,865)	(20,028)	(749)	(1,956)
Minority interests	<b>150</b>	175	75	–	–
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(10,538)</b>	(27,690)	(19,953)	(749)	(1,956)



# Appendix

## ASSETS AND LIABILITIES

	31 December			
	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TOTAL ASSETS</b>	<b>7,619</b>	8,873	8,688	396
<b>TOTAL LIABILITIES</b>	<b>(15,033)</b>	(11,427)	(12,155)	(401)
	<b>(7,414)</b>	(2,554)	(3,467)	(5)

### Notes:

1. The summary of the consolidated results of the Group for the two years ended 31 December 1999 has been extracted from the Company's prospectus dated 26 February 2001. Such summary was prepared based on the audited consolidated financial statements of the Group as if the structure of the Group had been in existence throughout these financial years. The results of the Group for the three years ended 31 December 2002 were extracted from the audited financial statements of the Company.
2. Since the reorganisation of the Group was completed in November 1999, the only audited consolidated balance sheets for the Group that have been prepared are as at 31 December 1999, 2000, 2001 and 2002.

# Notice of Annual General Meeting

光彩未來集團  
Glory Future Group

## GLORY FUTURE GROUP LIMITED 光彩未來集團有限公司

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

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Glory Future Group Limited (the "Company") will be held at 7th Floor, San Kei Tower, 56-58 Yee Wo Street, Causeway Bay, Hong Kong on 7 May 2003 at 11:00 a.m. to transact the following ordinary businesses:

1. To receive and consider the audited financial statements and the reports of the directors of the Company and auditors for the year ended 31 December 2002.
2. To re-elect directors of the Company and to authorise the board of directors of the Company to fix their remuneration.
3. To re-appoint auditors and to authorise the board of directors of the Company to fix their remuneration.

And as special business, to consider and, if thought fit, pass, with or without any modifications, the following resolution as an ordinary resolution:

**"THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make and grant offers, agreements and options which would or might require shares to be allotted be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make and grant offers, agreements and options which would or might require shares to be allotted after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to shares issued as a result of a Rights Issue (as hereinafter defined) or pursuant to a scrip dividend scheme of the Company or the convertible redeemable notes issued by the Company or the exercise of the subscription rights under the options granted by the Company, or the share option scheme of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;

# Notice of Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares in the capital of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory)."

By Order of the Board  
**Leung Wai Size**  
Company Secretary

Hong Kong, 26 March 2003

*Principal Office:*

Office Nos. 701-2  
7th Floor  
Man Yee Building  
60-68 Des Voeux Road Central  
Hong Kong

*Notes:*

- (1) A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.
- (2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
- (4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto but if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.