



RIVERHILL HOLDINGS LIMITED
山河控股有限公司*
(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT

2003

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

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

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

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

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

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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ng Kay Kwok
Mr. Shum Sai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Hong Jun Yan
Prof. Zhou Qi Ming

HONORARY CHAIRMAN

Prof. He Xiao Feng

QUALIFIED ACCOUNTANT

Mr. Ng Kay Kwok, *B.Eco.*

COMPANY SECRETARY

Mr. Ng Kay Kwok, *B.Eco.*

AUTHORISED REPRESENTATIVES

Mr. Ng Kay Kwok
Mr. Shum Sai

AUDIT COMMITTEE

Prof. Hong Jun Yan
Prof. Zhou Qi Ming

AUDITORS

Albert Lam & Co.
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 201, 2/F.
Million Fortune Ind. Centre
34-36 Chai Wan Kok Street
Tsuen Wan
N.T.
Hong Kong

PRINCIPAL BANKERS

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Riverhill Holdings Limited (the “**Company**”) will be held at The Crystal Room I, 3/F., Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, N.T., Hong Kong on 31 October 2003 at 10:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors of the Company (the “**Directors**”) and auditors for the year ended 30th June 2003;
2. to re-elect Directors and to authorise the board of Directors to fix the Directors’ remuneration;
3. to re-appoint auditors and to authorise the board of Directors to fix their remuneration; and, as special business, to consider and, if thought fit, passing the following resolutions (the “**Resolution(s)**”) as ordinary resolutions:
4. **“THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“**GEM**”) (the “**GEM Listing Rules**”) operated by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a “**Share**”) of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
 - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(bb) (if the Directors are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

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

(d) for the purposes of this Resolution:

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

5. **"THAT:**

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

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

By order of the board of Directors

Riverhill Holdings Limited

Ng Kay Kwok

Director

Hong Kong, 26 September 2003

NOTICE OF ANNUAL GENERAL MEETING

Registered Office:

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

*Registered and Principal Place of
Business in Hong Kong:*

Unit 201, 2/F.
Million Fortune Ind. Centre
34-36 Chai Wan Kok Street
Tsuen Wan
N.T.
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Tengis Limited at 28/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.
3. In relation to proposed Resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.
4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out in the accompanying document.

DIRECTORS' STATEMENT

It has been a disappointing year to the Company and the Group as a whole. The former executive directors of the Company (Mr. Wang Guo Wei, Mr. Yick Chong San and Mr. Liu Hao collectively as "the former management") have resigned on 23rd July 2003.

Under the former management's control, the Group has lost a bank deposit during the year of amount HK\$10 million which is deeply affected the cash flow of the Group. Legal action has been taken to recover the amount but it could take long time to process. Shareholders can refer to the circular issued by the Company on 11th April 2003 for more details of the incident.

During the past two years since the Company listed more than HK\$20 million was burnt to finance the PRC operations under the former management. However the result was totally unsatisfactory. For the year ended 30th June 2003 the loss of the PRC operations was HK\$14 million.

We confess the Group is now in a most fragile position as the Group is facing going concern problem. We are also laying down some measures to try to lead the Group back to the right path.

We are setting up another operation in Guangzhou to continue the software business but this time under a strictly controlled tight budget. The scale of operation at the beginning is kept at low level and less than ten professional staff will be recruited to render software services in web database and resources planning system development. We have made some initial contact with a few prospective customers and we are delighted with the feedback from them.

We have trimmed down costs in every possible way and not until the new operation in Guangzhou has become profitable with net cash inflow, we are committed no expansion of the Company will be carried out such that the overhead will be kept at the lowest level.

Dear shareholders, we must point out that new funding and new operation are now badly needed by the Company. We urge shareholders to take notice to any announcements of the Company for more updates of information.

By The Board of Directors

BUSINESS REVIEW

Financial highlights

For the year ended 30th June 2003, the turnover of the Group was about HK\$4.2 million, slightly less than Year 2002 which was about HK\$4.4 million. Gross profit ratio has improved from negative in Year 2002 to 5% this year. However due to large expenses incurred there was still loss recorded from operating activities with amount more than HK\$22 million this year. The share of losses of associates reduced to about HK\$0.1 million this year compared to about HK\$0.3 million in Year 2002 but a qualification on interests in associates in the Report of the Auditors is needed to be noted. Net loss attributable to shareholders was HK\$22.6 million this year, about 14% higher than Year 2002 of HK\$19.8 million.

The net assets value decreased from HK\$44.7 million to HK\$22.1 million this year. It was wholly due to the loss incurred this year. As at 30th June 2003 there was HK\$0.35 million cash remained.

Outlook and review in business

As at 30th June 2003 the existing PRC operations were still running in a loss position with large demand for funding. Sales of software and hardware was about HK\$3.3 million (2002: HK\$1.5 million) and provision of GIS and GPS related information technology contract services was about HK\$0.9 million (2002: HK\$2.9 million). Interest income has been reduced to just about HK\$47,000 (2002: HK\$712,000). This was caused by much less bank balances.

As the existing PRC operations have not been generating any benefits to the Group, the new management of the Company is planning a new set up in Guangzhou to render software services in web database and resources planning system development. At initial stage the scale of operation will be minimal and hopefully the new business can eventually be profitable and expand. Strict control on overhead and budget will be imposed.

Major acquisitions and disposals of assets

During the year ended 30th June 2003 there was no major acquisitions and disposals of assets including subsidiaries, affiliated companies and investments made by the Group.

Working capital

As at 30th June 2003 the net current assets was about HK\$13 million comprised of cash HK\$0.35 million and receivables of approximately HK\$13 million which the recoverability was qualified by the Auditors of the Company.

BUSINESS REVIEW

Liquidity and financial resources

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.23 as at 30th June 2003 (30th June 2002: 0.12). There was no bank loan or other loan outstanding as at 30th June 2003 but cash flow of the Group has been extremely tight since then.

Capital structure

During the year ended 30th June 2003, there was no change in the Company's share capital.

Hedging policy

During the year ended 30th June 2003, the Group's revenue was denominated in Renminbi. As no material fluctuation was ever anticipated by the Group in Renminbi, no hedging measures have been taken.

Contingent liabilities

As at the date of this Report there is no material contingent liabilities needed to be disclosed.

Staff

As at 30th June 2003 the number of employees has been reduced to less than one hundred (2002: 135 employees). The Group remunerated its staff based on their qualification, performance and the prevailing labour market condition.

Share option scheme

The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme on 14th May 2001. More details can be found in the Report of the Directors.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Modification to the Use of Proceeds

Following the listing of the Company's shares on GEM on 1st June 2001, and up to 30th June 2003, the Group has utilized approximately HK\$56 million of the net proceeds of the Share Offer. Approximately HK\$3.0 million was spent on geographic expansion and marketing, and another HK\$4.5 million was spent on research and development. This differs from the intended use of the net proceeds of the Share Offer earmarked for the period from 11th May 2001, being the latest practicable date for ascertaining certain information in the Prospectus for Initial Public Offering ("the Prospectus"), and up to 30th June 2003 (the "Relevant Period") as stated in the Prospectus.

As stated in the Prospectus, the Group plans to use a total of HK\$29.5 million of the net proceeds of the Share Offer during the Relevant Period, and particularly (i) HK\$4.0 million for geographic expansion and marketing, (ii) HK\$6.0 million for research and development, (iii) HK\$12.5 million for setting up joint ventures, and (iv) HK\$7.0 million for investments in research and data centres.

During the Relevant Period, the Group invested HK\$5.2 million to acquire a 35% stake in a research and technological venture, Cityonmap with subsequent loan of around HK\$3.0 million. The Group has also spent an aggregate of approximately HK\$2.6 million to acquire the stakes in four companies in Xi'an, Wuhan, Changsha and Jingzhou to expand the public geographic service and the marketing networks.

The Group has also repaid approximately HK\$13.6 million shareholder's loan during the financial year of 2002. In February 2003 an amount of HK\$10 million bank deposit pledged in favor of an overdraft facilities to a third party was confiscated by the bank.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual business progress for the Relevant Period

BUSINESS DEVELOPMENT

To increase the market share of the Group by seeking new projects through the promotion of the services provided by the Group via the new sales offices set up in major cities in the PRC.

Sales offices have been set up in a few cities in the PRC to procure business.

To upgrade CyberCommuncity, CyberTown and CyberHouse.

In progress but lack of funding to further develop.

To establish more sales offices in major cities in the PRC.

No plan to open any more new sales office.

RESEARCH AND DEVELOPMENT

To prepare for upgrading of CyberCommuncity, CyberTown and CyberHouse.

In progress but lack of funding to further develop.

To develop data visualization mining technology.

In progress but lack of funding to further develop.

MARKETING

To solicit customers via different social functions.

The Group has participated in certain social events to solicit customers.

To update the customer database.

In progress.

To study the performance of the nationwide sales network and to make adjustments accordingly.

No plan to open any more new sales office.

PROFILES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Shum Sai, aged 50, is a professional electronic engineer who has engaged in the electronic industry for more than fifteen years. Before joining the Company he was the chief engineer of a company responsible for OEM business development. Since July 2001 Mr. Shum has been employed by the Company as personal assistant to Professor Mr. He Xiao Feng, the former Chairman of the Company. Mr. Shum is also the Compliance Officer of the Company. He became the executive director of the Company on 23rd July 2003.

Mr. Ng Kay Kwok, aged 41, gained his University education in Australia and is an associate member of CPA Australia. He has more than twelve years of experience in accounting and auditing and corporate management. Before joining the Company Mr. Ng was the financial controller of a company listed on the main board of the Stock Exchange of Hong Kong. Mr. Ng is also the Company Secretary and Qualified Accountant of the Company. He joined the Company as executive director on 23rd July 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Hong Jun Yan, *B.A., M.A.*, aged 71, is a professor of the Department of International Economics of Peking University. Prof. Hong holds a master's degree in arts from Peking University and a bachelor's degree in arts from Yenching University. He has extensive teaching and research experience in business and economics. In the 1980s, Prof. Hong was granted a research fellowship by Columbia University and University of Michigan, Ann Arbor in the United States. He has also been teaching at Peking University for more than 40 years. Prof. Hong was appointed as an independent non-executive Director on 4th May 2001.

Prof. Zhou Qi Ming, *B.Sc., Ph.D.*, aged 47, is an associate professor of the Department of Geography at the Hong Kong Baptist University. Prof. Zhou holds a doctor's degree in philosophy from the School of Geography at the University of New South Wales, Australia. Before joining the Hong Kong Baptist University in 1997, he has taught at the University of New South Wales since 1990. Apart from teaching, Prof. Zhou has also been a consultant providing advice on GIS to various organisations such as the Lands Department and Agricultural and Fishery Department of Hong Kong, Asian Development Bank, The Ministry of Science and Technology in Mainland China and the United Nations. He was appointed as an independent non-executive Director on 4th May 2001.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30th June 2003.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 30th June 2003 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 30th June 2003 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 56.

The directors do not recommend the payment of any final dividend in respect of the year (2002: Nil).

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

	Year ended 30th June 2003 HK\$'000	Year ended 30th June 2002 HK\$'000	Year ended 30th June 2001 HK\$'000	Period from 12th May 1999 to 30th June 2000 (note) HK\$'000
TURNOVER	4,282	4,418	14,229	23,852
(LOSS)/PROFIT BEFORE TAXATION	(23,094)	(20,016)	(3,984)	3,130
Taxation	316	–	–	(316)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(22,778)	(20,016)	(3,984)	2,814
Minority interests	174	202	–	–
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(22,604)	(19,814)	(3,984)	2,814
TOTAL ASSETS	27,317	50,499	83,732	29,503
TOTAL LIABILITIES	(5,162)	(5,566)	(19,208)	(26,689)
MINORITY INTERESTS	(49)	(223)	–	–
	22,106	44,710	64,524	2,814

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

The consolidated results for the years ended 30th June 2001 and 30th June 2002 have been extracted from the published audited financial statements of the Company for these years.

REPORT OF THE DIRECTORS

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year are set out in note 19 to the financial statements. Details of the Company's share option scheme are set out under the heading "Share option scheme" in the Report of the Directors.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 20 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30th June 2003, the Company did not have any reserves available for distribution as calculated in accordance with the laws of the Cayman Islands. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 35% of the total sales for the year and sales to the largest customer included therein amounted to 14%. Purchases from the Group's four largest suppliers accounted for 27% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17%.

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

DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were as follows:

Executive directors:

Wang Guo Wei	(resigned on 23rd July 2003)
Liu Hao	(resigned on 23rd July 2003)
Yick Chong San	(resigned on 23rd July 2003)
Shum Sai	(appointed on 23rd July 2003)
Ng Kay Kwok	(appointed on 23rd July 2003)

Independent non-executive directors:

Hong Jun Yan
Zhou Qi Ming

In accordance with the Company's articles of association, Mr. Hong Jun Yan & Mr. Zhou Qi Ming will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

At 30th June 2003, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Ordinary shares of the Company

Name of director	Number of shares held and nature of interest		
	Personal	Corporate	Total
Wang Guo Wei (resigned on 23rd July 2003)	1,920,000	–	1,920,000
Liu Hao (resigned on 23rd July 2003)	1,200,000	–	1,200,000
Yick Chong San (resigned on 23rd July 2003)	–	105,921,569 [#]	105,921,569
	<u>3,120,000</u>	<u>105,921,569</u>	<u>109,041,569</u>

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

Name of director	Date of grant	Number of options outstanding at 30th June 2003	Exercise price of options HK\$	
Wang Guo Wei	(resigned on 23rd July 2003)	14th May 2001	1,760,000	0.6
Liu Hao	(resigned on 23rd July 2003)	14th May 2001	8,160,000	0.6
Yick Chong San	(resigned on 23rd July 2003)	14th May 2001	5,760,000	0.6
Hong Jun Yan		14th May 2001	400,000	0.6
Zhou Qi Ming		14th May 2001	400,000	0.6
			<u>16,480,000</u>	

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

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

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES (continued)

(b) (continued)

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

Categories of grantees	Date of grant	Number of options	Exercise price
		outstanding at 30th June 2003	of options HK\$
Directors of the Company and its subsidiaries	14th May 2001	16,480,000	0.6
Employees of the Group	14th May 2001	23,520,000	0.6
		<u>40,000,000</u>	

SUBSTANTIAL SHAREHOLDERS

At 30th June 2003, the following interests of 5% or more in the issued share capital of the Company were recorded in the register:

Name of shareholder	Number of shares held	Percentage of share holding
Global Eagle Investments Limited	114,509,804	27.59%
Cyber Town Company Limited*	105,921,569	25.52%
Cyber City Technology Limited	57,254,902	13.80%
Digital World Holdings Limited	29,433,725	7.10%

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

Save as disclosed above, no other person had an interest or short position in the share capital of the Company that was required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 30th June 2003.

AUDIT COMMITTEE

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

AUDITORS

Albert Lam & Co. retire at the forthcoming annual general meeting and will seek for reappointment at the meeting.

ON BEHALF OF THE BOARD

Ng Kay Kwok

Director

Hong Kong

26th September 2003

REPORT OF THE AUDITORS



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三〇一至三〇三號

To the members

Riverhill Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1. Scope limitation and disagreement about accounting treatment and disclosure – interests in an associate

Consolidated balance sheet comprised interests in an associate with carrying value of HK\$6,442,270, comprising of share of net assets of HK\$300,396 brought forward from 30th June 2002, related goodwill of HK\$2,896,812 and amount due from the associate of HK\$3,245,062, as included in the interests in associates of HK\$7,301,035. Due to the unavailability of the audited financial information or other documentary evidence, we have been unable to satisfy ourselves that the equity method has been properly adopted, related goodwill is fairly stated and the recoverability of the amount due from the associate.

REPORT OF THE AUDITORS

2. *Scope limitation – other receivables*

Up to the date of approval of these financial statements, we have not been provided with sufficient evidence to support the recoverability of a sum of HK\$13,068,780 as included in the prepayments, deposits and other receivables of HK\$16,998,697. There are no other satisfactory audit procedures that we could adopt to obtain adequate assurance that this carrying amount is fairly stated in the consolidated balance sheet.

3. *Scope limitation – inventories*

We were initially appointed as auditors on the date which was subsequent to the end of the Group's financial year. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories having a carrying amount of HK\$677,577 stated in the consolidated balance sheet. Also, in the absence of information regarding the subsequent sales of such inventories, we were unable to verify the valuation of such inventories at the balance sheet date.

Any adjustments to these figures might have a consequential significant effect on the net assets of the Group as at 30th June 2003 and its loss for the year then ended.

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

Qualified opinion arising from limitation of audit scope

Except for any adjustments or disclosure that might have been found necessary had we been able to obtain sufficient evidence relating to the matters mentioned in the preceding paragraphs, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30th June 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters mentioned in preceding paragraphs,

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

林聞深會計師事務所

Albert Lam & Co.

Certified Public Accountants

Hong Kong, 26th September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30th June 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$
TURNOVER	5	4,282,167	4,418,284
Cost of sales		<u>(4,087,076)</u>	<u>(5,005,773)</u>
Gross profit/(loss)		195,091	(587,489)
Other revenue	5	311,618	1,903,735
Selling and distribution costs		(1,258,127)	(935,318)
General and administrative expenses		(13,469,909)	(14,875,727)
Other expenses	6	<u>(8,736,219)</u>	<u>(4,921,304)</u>
LOSS FROM OPERATING ACTIVITIES	6	(22,957,546)	(19,416,103)
Finance costs	7	–	(268,319)
Share of losses of associates		<u>(136,661)</u>	<u>(331,262)</u>
LOSS BEFORE TAXATION		(23,094,207)	(20,015,684)
Taxation	9	<u>316,000</u>	–
LOSS BEFORE MINORITY INTERESTS		(22,778,207)	(20,015,684)
Minority interests		<u>174,139</u>	<u>202,132</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(22,604,068)</u>	<u>(19,813,552)</u>
Loss per share – basic	11	<u>(5.45 cents)</u>	<u>(4.77 cents)</u>

CONSOLIDATED BALANCE SHEET

30th June 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Fixed assets	12	1,896,651	2,581,472
Intangible assets	13	–	2,359,460
Interests in associates	15	7,301,035	7,688,511
Pledged deposit		–	10,000,000
		9,197,686	22,629,443
CURRENT ASSETS			
Inventories	16	677,577	4,165,974
Trade receivables	17	24,439	2,935,701
Prepayments, deposits and other receivables	22	16,998,697	12,692,391
Tax recoverable		68,036	–
Cash and bank balances		350,782	8,075,149
		18,119,531	27,869,215
CURRENT LIABILITIES			
Bank overdraft		91	–
Trade payables	18	–	156,179
Deferred revenue		–	1,894,393
Other payables and accrued liabilities		5,162,408	3,199,161
Tax payable		–	316,000
		5,162,499	5,565,733
NET CURRENT ASSETS		12,957,032	22,303,482
TOTAL ASSETS LESS CURRENT LIABILITIES		22,154,718	44,932,925
MINORITY INTERESTS		48,894	223,033
		22,105,824	44,709,892
CAPITAL AND RESERVES			
Issued capital	19	41,500,000	41,500,000
(Deficits)/Reserves	20	(19,394,176)	3,209,892
		22,105,824	44,709,892

Shum Sai
Director

Ng Kay Kwok
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30th June 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$
Loss before taxation		(23,094,207)	(20,015,684)
Adjustment for:			
Share of losses of associates		136,661	331,262
Depreciation		534,372	342,889
Amortisation of computer software		473,152	2,827,180
Interest paid		–	268,319
Loss on disposals of fixed assets		661,545	28,175
Amortisation of goodwill		1,017,542	465,129
Impairment of goodwill		–	785,797
Impairment of intangible assets		1,886,308	901,398
Inventories written off		3,230,754	–
Bad debts written off and provision for doubtful debts		651,580	–
Provision for other receivables		–	228,972
Operating loss before working capital changes		(14,502,293)	(13,836,563)
Decrease/(increase) in inventories		257,643	(2,773,095)
Decrease in trade receivables		2,911,262	6,025,113
Decrease/(increase) in prepayments, deposits and other receivables	21(a)	5,042,114	(4,943,158)
Increase in other payables and accrued liabilities		1,963,247	134,426
Decrease in trade payables		(156,179)	(2,414,076)
(Decrease)/increase in deferred revenue		(1,894,393)	1,894,393
Cash used in operations		(6,378,599)	(15,912,960)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30th June 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$
OPERATING ACTIVITIES			
Cash used in operations		(6,378,599)	(15,912,960)
Interest paid		–	(268,319)
Taxation paid		(68,036)	–
NET CASH USED IN OPERATING ACTIVITIES		(6,446,635)	(16,181,279)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash advances to the Group's staff, a subsidiary of a shareholder of the Company and other borrowers		–	(24,976,960)
Repayment of cash advances from the Group's staff, a subsidiary of a shareholder of the Company and other borrowers		–	19,976,960
Purchases of fixed assets		(715,104)	(1,965,926)
Proceeds from disposals of fixed assets		204,008	142,495
Additions of intangible assets		–	(2,350,000)
Loans to an associate		(766,727)	(2,506,372)
Acquisition of a subsidiary	21(c)	–	221,914
Acquisition of associates		–	(6,414,953)
Increase in pledged deposit		–	(10,000,000)
NET CASH USED IN INVESTING ACTIVITIES		(1,277,823)	(27,872,842)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of an amount due to a shareholder		–	(13,591,000)
Capital injection from minority interests		–	186,916
NET CASH USED IN FINANCING ACTIVITIES		–	(13,404,084)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(7,724,458)	(57,458,205)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		8,075,149	65,533,354
CASH AND CASH EQUIVALENTS AT END OF YEAR		350,691	8,075,149
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		350,782	8,075,149
Bank overdrafts		(91)	–
		350,691	8,075,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30th June 2003

	Share capital HK\$	Share premium account HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 30th June 2001	41,500,000	16,287,993	7,906,202	(1,170,751)	64,523,444
Loss for the year	—	—	—	(19,813,552)	(19,813,552)
At 30th June 2002	41,500,000	16,287,993	7,906,202	(20,984,303)	44,709,892
Loss for the year	—	—	—	(22,604,068)	(22,604,068)
At 30th June 2003	41,500,000	16,287,993	7,906,202	(43,588,371)	22,105,824

BALANCE SHEET

30th June 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Interests in subsidiaries	14	<u>38,606,640</u>	<u>42,218,541</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		104,970	37,250
Cash and bank balances		<u>23,457</u>	<u>398,747</u>
		<u>128,427</u>	<u>435,997</u>
CURRENT LIABILITIES			
Other payables and accrued liabilities		<u>655,882</u>	<u>406,590</u>
NET CURRENT (LIABILITIES)/ASSETS			
		<u>(527,455)</u>	<u>29,407</u>
		<u>38,079,185</u>	<u>42,247,948</u>
CAPITAL AND RESERVES			
Issued capital	19	41,500,000	41,500,000
(Deficits)/Reserves	20	<u>(3,420,815)</u>	<u>747,948</u>
		<u>38,079,185</u>	<u>42,247,948</u>

Shum Sai
Director

Ng Kay Kwok
Director

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

1. CORPORATE INFORMATION AND UPDATE

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

During the year, the Group incurred a net loss attributable to shareholders of approximately HK\$22.6 million and generated negative cash flows. The Group has taken a number of measures to reduce operating expenses, to attain profitable operation and to improve operating cash flows in the ensuing year. The directors are of the opinion that, with the above measures taken to date, the Group will have sufficient cash resources to meet its future working capital requirements and, accordingly, have prepared the financial statements on a going concern basis.

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

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

- SSAP 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 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 requirement for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 28 of the financial statements in place of the consolidated statement of recognized gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and 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 now translated into Hong Kong dollars at weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

2. IMPACT OF NEW AND REVISED 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 flow 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 into Hong Kong dollars at the exchange rates at the dates of the cash flows, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. The consolidated cash flow statement for the current year and comparative figures have been presented in accordance with the revised SSAP. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currency translation" in note 3 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 treatment for employee benefits, except that additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 19 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which are now included in the notes to the financial statements as a consequence of adoption of this new SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30th June 2003. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivables. The Company's interests in subsidiaries are stated at cost less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

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

Goodwill

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

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

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

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

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

Fixed assets and depreciation

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

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

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

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

Intangible assets

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

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

Research and development costs

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

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of asset 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 term.

Deferred tax

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet classification, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Foreign currencies translation

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

On consolidation, the financial statement of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. Exchange differences arising in these cases are included in the exchange fluctuation reserve.

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 21(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the sales of software and hardware segment mainly for geographic information system ("GIS") and global positioning system ("GPS") related services;
- (b) the provision of information technology contract services mainly for GIS and GPS related services; and
- (c) the investment holding segment refers to investments in subsidiaries and associates.

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

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Sales of software and hardware		Provision of information technology contract services		Investment holding		Consolidated	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Segment revenue:								
Sales to external customers	3,380,020	1,513,424	902,147	2,904,860	-	-	4,282,167	4,418,284
Other revenue	1,655	821,972	254,106	-	8,554	396,561	264,315	1,191,533
Total	<u>3,381,675</u>	<u>2,335,396</u>	<u>1,156,253</u>	<u>2,904,860</u>	<u>8,554</u>	<u>396,561</u>	<u>4,546,482</u>	<u>5,609,817</u>
Segment results	<u>(11,133,766)</u>	<u>(2,215,716)</u>	<u>(2,971,666)</u>	<u>(14,731,246)</u>	<u>(8,899,417)</u>	<u>(3,181,343)</u>	<u>(23,004,849)</u>	<u>(20,128,305)</u>
Interest income							47,303	712,202
Loss from operating activities							(22,957,546)	(19,416,103)
Finance costs							-	(268,319)
Share of losses of associates	-	-	(136,661)	(331,262)	-	-	(136,661)	(331,262)
Loss before tax							(23,094,207)	(20,015,684)
Tax							316,000	-
Loss before minority interests							(22,778,207)	(20,015,684)
Minority interests							174,139	202,132
Net loss from ordinary activities attributable to shareholders							<u>(22,604,068)</u>	<u>(19,813,552)</u>
Segment assets	<u>3,084,227</u>	<u>3,476,664</u>	<u>4,022,476</u>	<u>30,783,118</u>	<u>20,210,514</u>	<u>16,238,876</u>	<u>27,317,217</u>	<u>50,498,658</u>
Segment liabilities	<u>3,308,194</u>	<u>334,367</u>	<u>882,977</u>	<u>3,958,950</u>	<u>971,328</u>	<u>1,272,416</u>	<u>5,162,499</u>	<u>5,565,733</u>
Other segment information:								
Depreciation and amortisation	-	-	411,139	3,292,309	596,385	342,889	1,007,524	3,635,198
Impairment of computer software	-	-	1,237,500	901,398	648,808	-	1,886,308	901,398
Amortisation and impairment of goodwill	-	-	87,285	785,797	930,257	-	1,017,542	785,797
Other non-cash expenses	-	-	-	228,972	-	-	-	228,972
Capital expenditure	-	-	154,611	2,350,000	560,493	1,965,926	715,104	4,315,926

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	Hong Kong		Elsewhere in Mainland China		Consolidated	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Segment revenue:						
Sales to external customers	<u>-</u>	<u>1,680,000</u>	<u>4,282,167</u>	<u>2,738,284</u>	<u>4,282,167</u>	<u>4,418,284</u>
Segment results	<u>(8,899,417)</u>	<u>(6,580,807)</u>	<u>(14,105,432)</u>	<u>(13,547,498)</u>	<u>(23,004,849)</u>	<u>(20,128,305)</u>
Other segment information:						
Segment assets	<u>20,210,514</u>	<u>25,197,851</u>	<u>7,106,703</u>	<u>25,300,807</u>	<u>27,317,217</u>	<u>50,498,658</u>
Capital expenditure	<u>560,493</u>	<u>23,819</u>	<u>154,611</u>	<u>4,292,107</u>	<u>715,104</u>	<u>4,315,926</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

5. TURNOVER AND REVENUE

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

	2003 HK\$	2002 HK\$
Turnover		
Sales of software and hardware	3,380,020	1,540,332
Provision of information technology contract services		
GIS, GPS related	902,147	2,906,168
Sales tax, discounts and allowances	–	(28,216)
	<u>4,282,167</u>	<u>4,418,284</u>
Other revenue		
Interest Income	47,303	712,202
Other income	264,315	1,191,533
	<u>311,618</u>	<u>1,903,735</u>
	<u>4,593,785</u>	<u>6,322,019</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

6. LOSS FROM OPERATING ACTIVITIES

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

	2003 HK\$	2002 HK\$ (Restated)
Cost of inventories sold	870,677	956,974
Cost of services rendered	3,216,399	4,048,799
Auditors' remuneration	200,000	800,000
Depreciation	534,372	342,889
Amortisation of computer software (<i>note i</i>)	473,152	2,827,180
Loss on disposal of fixed assets	661,545	–
Minimum lease payments under operating lease in respect of land and buildings	1,539,195	1,295,293
Staff costs (including directors' remuneration):		
Wages and salaries (including HK\$1,895,136 which was included in cost of services rendered)	5,868,145	7,183,146
Pension scheme contributions (<i>note ii</i>)	40,465	310,076
<i>Less:</i> Amount capitalised into contract work in progress	–	(203,283)
Exchange losses, net	27,907	137,445
Interest income	(47,303)	(712,202)
Other expenses:		
Research and development costs	1,950,035	2,540,008
Impairment of computer software	1,886,308	901,398
Amortisation of goodwill	1,017,542	465,129
Impairment of goodwill on acquisition of a subsidiary	–	349,374
Impairment of goodwill on acquisition of an associate	–	436,423
Provision for other receivables	–	228,972
Bad debts written off	416,779	–
Provision for doubtful debts	234,801	–
Inventories written off	3,230,754	–

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

6. LOSS FROM OPERATING ACTIVITIES (continued)

Notes:

- i. The amortisation of computer software for the year and in the prior year is included in "Cost of sales" on the face of the profit and loss account.
- ii. During the year, there were no forfeited contributions available to offset the Group's pension scheme contributions (2002: Nil). At 30th June 2003, there were no forfeited contributions available to reduce contributions in future years (2002: Nil).

7. FINANCE COSTS

	GROUP	
	2003 HK\$	2002 HK\$
Interest expenses paid to a shareholder	—	268,319

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

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

	GROUP	
	2003 HK\$	2002 HK\$
Independent non-executive directors:		
Fees	45,000	50,000
Executive directors:		
Fees	—	208,629
Salaries and allowances	1,952,400	2,302,090
Bonuses	—	—
Pension scheme contributions	9,000	12,000
	<u>1,961,400</u>	<u>2,522,719</u>
	<u>2,006,400</u>	<u>2,572,719</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors' remuneration (continued)

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	<u>5</u>	<u>6</u>

The three executive directors received individual emoluments (fees, salaries and allowances, bonuses, pension scheme contributions) of HK\$856,400, HK\$585,000, and HK\$520,000, respectively for the year ended 30th June 2003.

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

The two non-executive directors received individual emoluments (fees) of HK\$30,000 and HK\$15,000 respectively for the year ended 30th June 2003.

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

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

(b) Five highest paid employees

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2002: one) non-director highest paid employee are as follows:

	GROUP	
	2003 HK\$	2002 HK\$
Salaries, allowances and benefits in kind	449,000	562,685
Pension scheme contributions	<u>9,000</u>	<u>12,000</u>
	<u>458,000</u>	<u>574,685</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Five highest paid employees (continued)

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

	2003	2002
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

9. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year (2002: Nil).

The amounts of taxation credited to the profit and loss account represents:

	2003 HK\$	2002 HK\$
Hong Kong Profits tax		
– over provision in respect of prior year	<u>316,000</u>	<u>–</u>

At the balance sheet date and for the year then ended, there was no material unprovided deferred tax liability as there were no significant timing differences. Deferred tax asset arising from the tax losses has not been recognised as it is uncertain that such an asset will be crystallized in the foreseeable future.

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$4,168,763 (2002: net loss of HK\$20,948,180).

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$22,604,068 (2002: HK\$19,813,552) and on the weighted average number of 415,000,000 (2002: 415,000,000) ordinary shares in issue during the year.

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

12. FIXED ASSETS

GROUP

	Computer equipment HK\$	Furniture, fixtures, motor vehicles and equipment HK\$	Total HK\$
Cost:			
At 1st July 2002	1,156,343	1,945,702	3,102,045
Additions	74,467	640,637	715,104
Disposals	(240,703)	(809,685)	(1,050,388)
At 30th June 2003	990,107	1,776,654	2,766,761
Accumulated depreciation:			
At 1st July 2002	334,586	185,987	520,573
Provided for the year	223,185	311,187	534,372
Disposals	(130,503)	(54,332)	(184,835)
At 30th June 2003	427,268	442,842	870,110
Net book value:			
At 30th June 2003	562,839	1,333,812	1,896,651
At 30th June 2002	821,757	1,759,715	2,581,472

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

13. INTANGIBLE ASSETS

GROUP

	Computer software HK\$
Cost:	
At 1st July 2002 and at 30th June 2003	<u>10,410,714</u>
Accumulated amortisation and impairment:	
At 1st July 2002	8,051,254
Provided during the year	473,152
Impairment during the year recognised in the profit and loss account	<u>1,886,308</u>
At 30th June 2003	<u>10,410,714</u>
Net book value:	
At 30th June 2003	<u>—</u>
At 30th June 2002	<u>2,359,460</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

14. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2003 HK\$	2002 HK\$
Unlisted investments, at cost	5,008,263	5,008,263
Due from a subsidiary	48,154,549	51,766,450
Due to a subsidiary	(56,172)	(56,172)
	<u>53,106,640</u>	<u>56,718,541</u>
Provision for impairment	(14,500,000)	(14,500,000)
	<u>38,606,640</u>	<u>42,218,541</u>

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

Particulars of the Company's subsidiaries as at 30th June 2003 are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

15. INTERESTS IN ASSOCIATES

	GROUP	
	2003 HK\$	2002 HK\$
Share of net assets	859,321	995,982
Goodwill on acquisition	3,168,615	4,186,157
Loans to associates	3,273,099	2,506,372
	<u>7,301,035</u>	<u>7,688,511</u>
HK\$		
<u>Goodwill</u>		
On acquisition		<u>5,087,709</u>
<u>Accumulated amortisation and impairment</u>		
At 1st July 2002		901,552
Amortisation provided during the year		<u>1,017,542</u>
At 30th June 2003		<u>1,919,094</u>
<u>Net book value</u>		
At 30th June 2003		<u>3,168,615</u>
At 30th June 2002		<u>4,186,157</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

15. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates as at 30th June 2003 are as follows:

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

16. INVENTORIES

	GROUP	
	2003 HK\$	2002 HK\$
Contract work in progress	–	773,048
Merchandise for sale	677,577	3,392,926
	677,577	4,165,974

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

17. TRADE RECEIVABLES

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

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

	GROUP	
	2003 HK\$	2002 HK\$
Within 1 month	–	2,928,224
1 to 2 months	–	–
Over 2 months	24,439	7,477
	<u>24,439</u>	<u>2,935,701</u>

18. TRADE PAYABLES

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

	GROUP	
	2003 HK\$	2002 HK\$
Within 1 month	–	–
1 to 3 months	–	156,179
	<u>–</u>	<u>156,179</u>

19. SHARE CAPITAL

Shares

	2003 HK\$	2002 HK\$
Authorised: 800,000,000 ordinary shares of HK\$0.10 each	<u>80,000,000</u>	<u>80,000,000</u>
Issued and fully paid: 415,000,000 ordinary shares of HK\$0.10 each	<u>41,500,000</u>	<u>41,500,000</u>

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

19. SHARE CAPITAL (continued)

Share Option

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

20. (DEFICITS)/RESERVES

GROUP

	Share premium account HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 30th June 2001	16,287,993	7,906,202	(1,170,751)	23,023,444
Loss for the year	—	—	(19,813,552)	(19,813,552)
At 30th June 2002	16,287,993	7,906,202	(20,984,303)	3,209,892
Loss for the year	—	—	(22,604,068)	(22,604,068)
At 30th June 2003	<u>16,287,993</u>	<u>7,906,202</u>	<u>(43,588,371)</u>	<u>(19,394,176)</u>
Reserves retained by:				
Company and subsidiaries	16,287,993	7,906,202	(43,120,448)	(18,926,253)
Associates	—	—	(467,923)	(467,923)
At 30th June 2003	<u>16,287,993</u>	<u>7,906,202</u>	<u>(43,588,371)</u>	<u>(19,394,176)</u>
Company and subsidiaries	16,287,993	7,906,202	(20,653,041)	3,541,154
Associates	—	—	(331,262)	(331,262)
At 30th June 2002	<u>16,287,993</u>	<u>7,906,202</u>	<u>(20,984,303)</u>	<u>3,209,892</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

20. (DEFICITS)/RESERVES (continued)

COMPANY

	Share premium account HK\$	Contributed surplus HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 30th June 2001	16,287,993	4,998,063	410,072	21,696,128
Loss for the year	—	—	(20,948,180)	(20,948,180)
At 30th June 2002	16,287,993	4,998,063	(20,538,108)	747,948
Loss for the year	—	—	(4,168,763)	(4,168,763)
At 30th June 2003	16,287,993	4,998,063	(24,706,871)	(3,420,815)

In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a banking facility granted to Well Pacific Investments Limited ("WPIL"), an investee company of a shareholder of the Company. The bank has exercised its right to uplift the pledged deposit for an amount of HK\$10,068,780 to settle the overdue borrowings by WPIL.

NOTES TO THE FINANCIAL STATEMENTS

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21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted at beginning of year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flow from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxation. The significant reclassifications resulting from the change in presentation are that taxes and dividends paid are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout. The revisions to this SSAP have had no material effect on the amounts in the financial statements.

(c) Acquisition of a subsidiary

	2003 HK\$	2002 HK\$
Net assets acquired:		
Cash and bank balances	–	829,391
Prepayments, deposits and other receivables	–	841
Other payables and accrued liabilities	–	(333,880)
Minority interests	–	(238,249)
	–	258,103
Goodwill on acquisition	–	349,374
	–	607,477
Satisfied by cash	–	607,477

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

	2003 HK\$	2002 HK\$
Cash consideration	–	(607,477)
Cash and bank balances acquired	–	829,391
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	221,914

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of a subsidiary (continued)

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

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

22. PLEDGE OF ASSETS

During the year, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a facility granted to Well Pacific Investments Limited ("WPIL"), an investee company of a shareholder of the Company. A shareholder of WPIL (the "guarantor") had entered into a guarantee agreement with the Group to secure such arrangement. On 28th February 2003, the bank has exercised its right to uplift the pledge deposit for an amount of HK\$10,068,780 to settle the overdue borrowings by WPIL. The Group has taken legal proceedings against the guarantor for the sum of HK\$10,000,000, together with related interest and legal cost. Under this circumstance, the amount of HK\$10,068,780 has been included in other receivables as at 30th June 2003.

23. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. All leases for properties will be expire within one year.

	GROUP	
	2003 HK\$	2002 HK\$
Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable:		
Within one year	221,393	1,619,779
In the second to fifth years, inclusive	–	1,495,033
	<u>221,393</u>	<u>3,114,812</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30th June 2003

24. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of Group's business:

		GROUP	
	<i>Notes</i>	2003 HK\$	2002 HK\$
Sales of product to associates	(i)	42,256	–
Sales of products to a subsidiary of a shareholder	(ii)	–	1,680,000
Deposit paid to a subsidiary of a shareholder	(iii)	–	2,000,000
Advances to a subsidiary of a shareholder	(iv)	–	8,000,000
Advance to a director of a shareholder	(v)	–	5,000,000
		<hr/>	<hr/>

Notes:

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

25. COMPARATIVE FIGURES

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

26. APPROVAL OF THE FINANCIAL STATEMENTS

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