



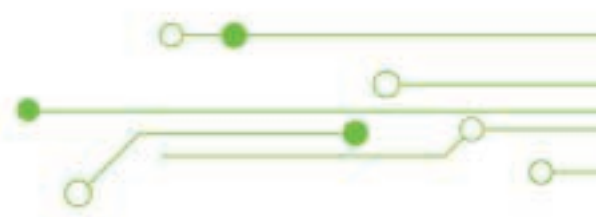
Glory Future

Annual Report 2003

光彩未來集團  
Glory Future Group

**Glory Future Group Limited**

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





## Important Notice

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

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-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 at “[www.hkgem.com](http://www.hkgem.com)” in order to obtain up-to-date information on GEM-listed issuers.



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Choi Koon Ming (*Chairman*)  
Luan Shusheng (*Vice-chairman*)  
Hui Ching Shan (*Managing Director*)  
Ng Kam Yiu (*Deputy Managing Director*)  
Chau Chi Man  
Chow Yeung Tuen, Richard  
Leung Wai Sze

### Non-executive Director

Ha Kee Choy, Eugene

### Independent Non-executive Directors

Chan Yan Tin, Andrew  
Cho Po Hong, Jimmy

## COMPANY SECRETARY

Leung Wai Sze

## QUALIFIED ACCOUNTANT

Leung Wai Sze

## COMPLIANCE OFFICER

Ng Kam Yiu

## AUTHORISED REPRESENTATIVES

Hui Ching Shan  
Chow Yeung Tuen, Richard

## AUDIT COMMITTEE

Cho Po Hong, Jimmy  
(*Committee Chairman*)  
Chan Yan Tin, Andrew  
Chow Yeung Tuen, Richard

## AUDITORS

Ernst & Young  
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
International Bank of Asia

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, San Kei Tower  
56-58 Yee Wo Street  
Causeway Bay  
Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICES

**Principal registrar**  
Bank of Butterfield International (Cayman) Ltd  
Butterfield House  
Fort Street, P.O. Box 705  
George Town, Grand Cayman  
Cayman Islands

**Branch registrar**  
Tengis Limited  
Grand Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong



# Chairman's Statement

## REVIEW

The 2003 financial year was difficult for Hong Kong and in particular, the local IT industry. Glory Future could not be isolated from the economic outcomes of this situation. Consequently, it created a significant challenge for the management to control cost and increase productivity. I am pleased to report that attributable to the Group's operating and management efficiency, the result of the year represented an improvement on the financial figures, especially an increase in overall sales and decrease in administrative expenses.

The devastating outbreak of SARS in the first quarter of 2003 made business activities in the region come to a virtual halt, and we experienced an unprecedented setback in business. The performance in the first half of 2003 was significantly worse than our original plan. Although we saw the beginning of recovery at the end of the year, the financial results of the Group reflected a weak state of the IT sector in general and software sector in particular.

During the year under review, turnover was HK\$1,063,000, an increase of 35% as compared to fiscal year 2002. As a result of the aggressive strategies taken by the Board to control cost, the Group successfully narrowed net loss attributable to shareholders by 45% to HK\$5,756,000, as compared to the loss of HK\$10,538,000 recorded for fiscal year 2002. The Board does not recommend the payment of a final dividend for the year.

In 2003, the Group initiated a thorough review of strategy and operations. The brief for the review was to develop a strategy for Glory Future that would maximize shareholder value and to set out the foundations for a new business plan that would deliver this strategy. The Group has decided to reduce reliance on online exhibition, website and technical support business and pay more emphasis on application development business, so as to coincide with the rising demand in HK and the People's Republic of China (the "PRC"). Furthermore, the Group is now looking for new business opportunities that may generate satisfactory returns to our valuable shareholders.

During the year under review, we set up a sharpened operational and cost control standard in Glory Future. These measures should ensure a robust response to any uncertainty in the economic conditions that may lie ahead and at the same time, ensure that full advantage is taken with the return of fairer trading winds.



# Chairman's Statement

## OUR STRATEGIC FOCUS

We constantly strive to improve our customer service level. We have focused on breaking down our customer base into appropriate segments so that we can satisfy their particular needs effectively. Our management team has an in-depth understanding of the requirements of our various segments of customers. We have significant progress in the market segments, such as contracts recruited from a government bureau in Nanshan district, Shenzhen and one international bank.

## PROSPECTS

Even though there was some uplift in HK local economy during the year, particularly in the second half of 2003, the IT markets have been flat for a long time, proving that we were right to maintain our cautious view and cost control measures. The Mainland China and Hong Kong Closer Economic Partnership Arrangement ("CEPA") is expected to drive economic recovery in Hong Kong generally, although its actual contribution to economic growth and job creation has not yet to be quantified. With the persistent high growth in the PRC's gross domestic product, we are confident that Hong Kong should be able to benefit from CEPA. The Group would build up its existing foundation with stringent cost control measures so as to pursue its long-term strategy under a prudent development policy. The Group remains confident to meet future challenge by taking advantage of the new opportunities lying ahead.

**Choi Koon Ming**

*Chairman*

Hong Kong, 23 March 2004

# Management Discussion and Analysis

## OVERVIEW

As the economic and business environment in HK continued to stay stagnant in 2003, the IT market became more challenging than ever. Fierce competition coupled with the general reduction in corporate IT expenditure caused a rapid drop in expenditure of the local IT sector. The SARS outbreak in the first half of 2003 severely damaged the corporate expenditure sentiment of this already sluggish market.

During the year under review, Glory Future continued to abide by its stringent cost control measures, so as to retain sufficient capital for its full-fledged business development when the market shows signs that it is once again ready for growth.

For the year ended 31 December 2003, turnover amounted to approximately HK\$1,063,000 as compared to approximately HK\$785,000 of the previous year. Thanks to its cost control commitment, the Group again narrowed its loss attributable to shareholders by 45%, from approximately HK\$10,538,000 to approximately HK\$5,756,000 for the year under review.

## OPERATIONAL REVIEW

During the year under review, the Group reduced the proportion of online exhibition, website and technical support business and paid more effort in application development business.

During the year, the Group signed contracts to provide application development to a government Bureau in Nanshan district, Shenzhen and one international bank. The winning of these contracts, together with the Group's previous contracts, demonstrated the Group's capabilities in winning customer and offering customized solution as well as its well reception by the PRC and MNC clients.

## FINANCIAL REVIEW

### Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flows together with the net proceeds from the issue of new shares by way of placing in December 2002 and the issue of convertible redeemable bonds in October 2003. The Group adhered to a prudent financial management policy.

# Management Discussion and Analysis

As at 31 December 2003, the Group had cash and cash equivalent of approximately HK\$4.3 million (2002: HK\$6.5 million). During the year, the Group utilised approximately HK\$4.7 million to finance its operations (2002: HK\$8.8 million).

As at 31 December 2003, the Group had total outstanding borrowings of approximately HK\$16.3 million (2002: HK\$13 million). The borrowings comprised an unsecured convertible redeemable note in principal amount of HK\$7 million, which will mature on 28 March 2005 and the unsecured convertible redeemable bonds in principal amount of HK\$9 million, which will mature on 27 October 2006 together with an unsecured interest-free advance of approximately HK\$0.3 million, which shall be repaid no later than 28 March 2005.

## Capital structure

During the year the following transactions affecting the capital structure have taken place:

- (a) On 11 March 2003, Mr. Luan Shusheng ("Mr. Luan") advanced approximately HK\$560,000 (the "Advance") to the Group. Mr. Luan was, and still is, a director of the Company and is indirectly interested in 100,000,000 shares of HK\$0.05 each of the Company (representing about 13.3% of the existing issued share capital of the Company) (such shares are held by Glory Cyber Company Limited ("Glory Cyber")). The Advance was unsecured and interest-free. The Group repaid the Advance to Mr. Luan during the year.
- (b) On 19 August 2003, the Company and Sun Wah Net Investment Limited ("Sun Wah") changed the principal amount of HK\$6 million of a convertible redeemable note issued by the Company and matured on 19 August 2003 together with interest of approximately HK\$0.24 million accrued thereon into an interest-free unsecured shareholder's loan (the "Shareholder's Loan") to the Company. Sun Wah was, and still is, a substantial shareholder of the Company. The Shareholder's Loan was repaid by the Company to Sun Wah in the manner described under paragraph (c) below.
- (c) On 27 October 2003, the Company issued the convertible redeemable bonds in a principal amount of HK\$9 million to Sun Wah. Part of the subscription price of the bonds, being approximately HK\$6.24 million, was offset against the face value of the entire Shareholder's Loan outstanding. The bonds, due in October 2006, are unsecured and bear interest at a rate of 3% per annum. The principal terms of the bonds are set out in the Company's circular dated 30 September 2003.



# Management Discussion and Analysis

As at 31 December 2003, the Company's total number of issued shares was 753,720,000 (2002: 753,720,000).

As at 31 December 2003, the Group had convertible redeemable note and bonds of an aggregate principal amount of HK\$16 million outstanding (2002: HK\$13 million). Such convertible note and bonds are unsecured, of which the HK\$7 million note bears interest at a rate of 8% per annum and the HK\$9 million bonds bear interest at a rate of 3% per annum.

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

The Group held no significant investment during the year. There were no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2003 (2002: Nil).

## Segment comments

With the Group's determination to pay more effort in the application development business, in the year 2003, the Group recruited several new application development contracts that contributed to the Group's turnover in the segment of Internet-based and Windows-based applications and web page design business, by an increase of approximately 44% as compared to fiscal year 2002. Due to the keen market competition and low profit margin, turnover in the segment of website maintenance and technical support business dropped by approximately 32% as compared to year 2002.

During the year under review, the Group exercised a cost control measurement in its operation. For the Internet-based and Windows-based applications and web page design business, it recorded a loss of approximately HK\$108,000, representing a drop of approximately 72% from the previous year's figure of approximately HK\$391,000. Results for the website maintenance and technical support business successfully turned from a loss of approximately HK\$118,000 for the previous year to a profit of approximately HK\$24,000 for this year.

## Employee information

As at 31 December 2003, the Group employed a total of 9 (2002: 14) employees. The staff costs, excluding directors' remuneration, were approximately HK\$835,000 (2002: HK\$1,682,000). The decrease in staff costs was mainly attributable to reduction in the number of staff during the year.

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

# Management Discussion and Analysis

## Charges on group assets

As at 31 December 2003, none of the Group's assets was pledged (2002: Nil).

## Future plans for material investments or capital assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2003, but the Group will continue to look for new business opportunities.

## Gearing ratio

As at 31 December 2003, the Group's gearing ratio was approximately  $-1.23$  (2002:  $-1.76$ ), based on the total borrowings of approximately HK\$16.3 million (2002: HK\$13 million) and deficiencies in assets of approximately HK\$13.2 million (2002: approximately HK\$7.4 million).

## Exposure to fluctuation in exchange rates

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

## Contingent liabilities

As at 31 December 2003, the Group and the Company had no significant contingent liabilities (2002: Nil).

# Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Company's prospectus dated 26 February 2001 (the "Prospectus") for the period from 1 July 2003 to 31 December 2003 (the "Review Period").

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

## Actual business progress in the Review Period

### Content development

- |   |  |
|---|--|
| 1. Assess the possibility of and form alliances with Internet content providers to acquire content relating to international trade and commerce | The Group has not found any suitable Internet Content Provider and thus has not formed any alliance with any third party during the Review Period. |
| 2. Continue to enrich the contents and functions of www.expo24hrs.net   | The directors of the Company (the "Directors") consider that the existing system is sufficient to meet visitor's need.                             |

### Technology development

- |  |  |
|--|--|
| 1. Continuously evaluate the system load of www.expo24hrs.net and implement improvement plans, if required       | No sign of overloading has been shown. The Group has regularly reviewed the current system to ensure its capacity to meet visitors' demand.  |
| 2. Assess new technologies available in the market to improve the functions and performance of www.expo24hrs.net | The Group has been regularly evaluating new technologies available in the market. However, no latest technology in the market is suitable for www.expo24hrs.net at present.                                    |
| 3. Form alliances with overseas technology consultants to strengthen the technical capabilities                  | The Group has performed assessment on the possibility of forming alliances with overseas technology consultants. However, no suitable candidate exists and the Group has pended the formation of any alliance. |
| 4. Continue to develop new web applications to enhance the features and functions of www.expo24hrs.net           | No new web applications are suitable for www.expo24hrs.net. Furthermore, the Group is planning to relocate the capital resource to other potential segments.   |

# Comparison of Business Objectives with Actual Business Progress

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

## Actual business progress in the Review Period

### Marketing development

- |   |  |
|---|--|
| 1. Assess and develop opportunities to expand the marketing of www.expo24hrs.net into new international markets | The Directors have deferred the expansion and marketing of www.expo24hrs.net into international markets, and relocated the resource to other potential segments. |
| 2. Continue to explore and develop B2B e-commerce and other Internet and IT business opportunities              | Ongoing efforts are concentrated to develop other IT related business, such as application development.  |

# Use of Proceeds

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange on 2 March 2001, after deduction of the related issue expenses, were applied in accordance with the proposed application set out in the Prospectus, as follows:

	<b>Amount extracted from the Prospectus</b>	<b>Actual proceeds* used up to 31 December 2003</b>
	HK\$ million	HK\$ million
Purchase of fixed assets	3.1	3.1
Development of operation hardware and software	3.0	1.8
Expansion of overseas markets	2.0	–
Marketing and promotion	2.0	2.0
Working capital	12.5	15.7
<b>Total</b>	<b>22.6</b>	<b>22.6</b>

\* All the proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange on 2 March 2001 had been used up during the year ended 31 December 2002.

## USE OF PROCEEDS FROM THE COMPANY'S PLACING OF SHARES IN DECEMBER 2002 AND ISSUANCE OF CONVERTIBLE REDEEMABLE BONDS IN OCTOBER 2003

### Issue of new shares by way of placing

In order to raise funds and broaden its capital and shareholder base of the Group, the Company issued 100,000,000 ordinary shares of HK\$0.05 each at a price of HK\$0.06 per ordinary share (the "Placing") to Glory

# Use of Proceeds

Cyber on 31 December 2002. The application of proceeds from the Placing during the year was in line with the proposed application as set out in a circular to shareholders of the Company dated 6 December 2002, as follows:

	<b>Amount extracted from the circular dated 6 December 2002 (after deduction of relevant expenses)</b> HK\$ million	<b>Actual proceeds used up to 31 December 2003</b> HK\$ million
General working capital	5.7	4.3

The remaining net proceeds as at 31 December 2003 was approximately HK\$1.4 million, which have been placed on short-term interest-bearing deposits with banks in Hong Kong.

## Convertible redeemable bonds

In order to secure a long term financing resource and enhance the Group's cash position, the Company issued the convertible redeemable bonds (the "Bonds") of a principal amount of HK\$9 million to Sun Wah on 27 October 2003. The application of proceeds from the Bonds during the year was in line with the proposed application as set out in a circular to shareholders of the Company dated 30 September 2003, as follows:

	<b>Amount extracted from the circular dated 30 September 2003 (after deduction of relevant expenses)</b> HK\$ million	<b>Actual proceeds used up to 31 December 2003</b> HK\$ million
Repayment of Shareholder's Loan	6.2	6.2
General working capital	2.4	–
<b>Total</b>	<b>8.6</b>	<b>6.2</b>

The remaining net proceeds as at 31 December 2003 was approximately HK\$2.4 million, which have been placed on short-term interest-bearing deposits with banks in Hong Kong.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

Mr. Choi Koon Ming, aged 35, joined the Group on 8 August 2000 as the Chairman of the Company. Mr. Choi is responsible for formulating the overall strategic planning of the Group. He holds a Bachelor of Arts degree from the University of British Columbia. He is also an executive director of SW Kingsway Capital Holdings Ltd. He is the brother of Mr. Choi Koon Shum, the ultimate beneficial owner of Sun Wah Net Investment Limited.

Mr. Luan Shusheng, aged 41, joined the Group on 12 February 2003 as the Vice-chairman of the Company. Mr. Luan is responsible for overseeing the entire business operation of the Group. He has over 10 years of experience in Internet-related business and is a Senior Engineer. Mr. Luan earned a Master Degree in Material Management Engineering (Computing Application) from the Northern Jiaotong University in Beijing in 1986. He founded and served as the General Manager in a number of information technology companies in the PRC. Mr. Luan is also a director and substantial shareholder of Glory Cyber Company Ltd.

Dr. Hui Ching Shan Douglas, aged 52, joined the Group on 25 October 2000 and is the Managing Director of the Company. He is mainly responsible for the overall strategic planning of the Group. Prior to joining the Group, he had held senior positions in several local and international merchant banks, and securities houses. Dr. Hui also holds directorships in various listed companies in Hong Kong and Canada. He holds a Bachelor Degree in Social Science from the University of Hong Kong, a Master Degree in Business Administration from the University of Toronto (Deans List/Scholarship Award) and a Doctor Degree in Business Administration from the University of South Australia. Dr. Hui is also a Certified Management Accountant of Canada (Dick Dawson Award) and a member of the Hong Kong Institute of Company Secretaries.

Mr. Ng Kam Yiu, aged 41, joined the Group on 8 January 2003 as the Deputy Managing Director of the Company. Mr. Ng is responsible for statutory compliance and business development of the Group. He has extensive experience in auditing and accounting. He acts as director of a number of subsidiaries of Sun Wah Hi-Tech Holdings Limited. He is also a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

Mr. Chow Yeung Tuen, Richard, aged 47, joined the Group on 20 August 2001. Mr. Chow is a Certified Public Accountant with over 20 years of experience in auditing and taxation. He acts as director of a number of subsidiaries of Sun Wah Group. Mr. Chow is also a Barrister of England and Wales. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration from the University of East Asia, Macau.

Mr. Chau Chi Man, Davis, aged 40, joined the Group on 12 February 2003 as a Non-Executive Director of the Company and re-designated as an Executive Director on 8 April 2003. He is one of the founders of the World Chinese Software Association. For over 10 years, Mr. Chau has served in a number of multinational information technology companies, including IBM China/Hong Kong Corporation, Oracle Systems Hong Kong Limited and Platinum Technology Pte Limited. Mr. Chau is renowned for his experiences in the enterprise software industry. Mr. Chau graduated with a Bachelor Degree from the Faculty of Social Sciences, the Chinese University of Hong Kong in 1985 and he earned a Master of Business Administration degree from the same university in 1987.

# Directors and Senior Management

## DIRECTORS (CONTINUED)

### Executive Directors (continued)

Ms. Leung Wai Sze, aged 36, joined the Group on 20 August 2001 as the Group Financial Controller and appointed as an Executive Director of the Company on 7 July 2003. Ms. Leung is also the Qualified Accountant and Company Secretary of the Company. She is responsible for supervising financial and company secretarial matters as well as office operations of the Group. Ms. Leung is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. She has extensive experience in finance, company secretarial and auditing.

### Non-executive Director

Mr. Ha Kee Choy, Eugene, aged 46, joined the Group on 25 October 2000. Mr. Ha has over 13 years of experience in the finance and banking industry. He is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration.

### Independent Non-executive Directors

Mr. Chan Yan Tin, Andrew, aged 40, joined the Group on 1 November 2001. Mr. Chan is a non-executive director of Tern Properties Company Limited, a company listed on the Main Board of the Stock Exchange, and has extensive experience in property investment and development in both Hong Kong and overseas. He holds a Bachelor Degree in Business Administration from Simon Fraser University in Canada.

Mr. Cho Po Hong, Jimmy, aged 33, joined the Group on 1 November 2001. Mr. Cho is the Deputy Managing Director of Multifield International Holdings Limited and the Oriental Explorer Holdings Limited, both companies are listed on the Main Board of the Stock Exchange. He is responsible for overseeing overall operations and formulating the Corporate Strategy of both companies. He has over 11 years of experience in corporate finance and property development and management. He has been involved in financial services and property industry for over 9 years with a number of listed companies. He is an associate member of CPA Australia. He also holds an Honorary Bachelor Degree in Finance from the University of Washington in Seattle, USA, a Master Degree in Business Administration from the University of Adelaide, Australia and a Master Degree of Science in e-commerce from the University of Hong Kong.

## SENIOR MANAGEMENT

Mr. Lee Hang Tat, joined the Group as Deputy Financial Controller on 8 March 2003. Mr. Lee is responsible for the financial matters of the Group. He has extensive experience in auditing. Mr. Lee holds a Bachelor Degree in Business Administration from the University of Hong Kong.

Mr. Lee Chi Ho, joined the Group as IT Manager on 29 April 2002. Mr. Lee is responsible for the technical management of the Group's Internet projects. He has in-depth knowledge in e-commerce related business.

Ms. Wong Yu Man, joined the Group as Marketing Manager on 14 May 2002. Ms. Wong is responsible for the marketing activities of the Group. She has extensive experience in business development.





# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

## **PRINCIPAL ACTIVITIES**

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

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 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 28 to 66.

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

## **SUMMARY FINANCIAL INFORMATION**

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements of the Company, is set out on pages 67 to 68 of the annual report. This summary does not form part of the audited financial statements.

## **FIXED ASSETS**

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

## **SHARE CAPITAL AND SHARE OPTIONS**

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

## **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The Company's share premium account, in the amount of HK\$15,796,000, may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 31 December 2003, the Company did not have any reserves available for distribution.

## PRE-EMPTIVE RIGHTS

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

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

- (i) The aggregate amount of turnover attributable to the Group's five largest customers represented 90% of the total turnover for the year. The turnover from the Group's largest customer represented 67% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 99% of the total purchases for the year. The purchases from the Group's largest supplier represented 84% of the Group's total purchases for the year.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS (continued)

As far as the directors are aware, other than Mr. Luan Shusheng, an executive director of the Company, who is also the director and substantial shareholder of Glory Future Software Co., Ltd. ("Glory Software"), one of the Group's top five suppliers for the year ended 31 December 2003, none of the directors of the Company or any of their associates, or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Details of the transactions with Glory Software are set out in note 25 to the financial statements.

## DIRECTORS

The directors of the Company during the year were:

Mr. Choi Koon Ming ("Mr. Choi")

Mr. Hui Ching Shan ("Mr. Hui")

Mr. Chow Yeung Tuen, Richard ("Mr. Chow")

Mr. Ha Kee Choy, Eugene \* ("Mr. Ha")

Mr. Chau Chi Man ("Mr. Chau") (appointed as non-executive director on 12 February 2003 and re-designated as executive director on 8 April 2003)

Mr. Ng Kam Yiu ("Mr. Ng") (appointed on 8 January 2003)

Mr. Luan Shusheng ("Mr. Luan") (appointed on 12 February 2003)

Ms. Leung Wai Sze ("Ms. Leung") (appointed on 7 July 2003)

Mr. Chan Yan Tin, Andrew ("Mr. Chan")\*\*

Mr. Cho Po Hong, Jimmy ("Mr. Cho")\*\*

\* non-executive director

\*\* independent non-executive directors

In accordance with article 86(3) of the Company's articles of association, Ms. Leung will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

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



# Report of the Directors

## **DIRECTORS (continued)**

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

Each of Mr. Ha, Mr. Chan and Mr. Cho is appointed as non-executive director or, as the case may be, independent non-executive director for a term of one year.

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

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 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 which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Except as disclosed in note 25 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the interests and short positions of the directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on The Growth Enterprise Market (the "GEM") of the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity	Attributable interest to the director	Number of shares held	Approximate percentage of the Company's issued share capital as at 31 December 2003	Number of Pre-IPO share options (Note 1)	Number of Post-IPO share options (Note 1)	Number of shares and underlying shares of the Company
Mr. Choi	Beneficial owner	100% (directly)	-	-	5,024,000	7,500,000	12,524,000
Mr. Hui	Beneficial owner	100% (directly)	-	-	5,024,000	6,000,000	11,024,000
Mr. Ng	Beneficial owner	100% (directly)	-	-	-	3,000,000	3,000,000
Mr. Chow	Beneficial owner	100% (directly)	-	-	-	3,000,000	3,000,000
Ms. Leung	Beneficial owner	100% (directly)	-	-	-	4,000,000	4,000,000
Mr. Luan	(a) Through a controlled corporation (Note 2) (b) Beneficial owner	(a) Through a controlled corporation (Note 2) (b) 100% (directly)	(a) 100,000,000 (Note 2)	13.3%	-	(b) 6,000,000	106,000,000
Mr. Chau	Beneficial owner	100% (directly)	-	-	-	3,000,000	3,000,000

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

1. The interests of the directors in the share options of the Company are separately disclosed in note 23 to the financial statements.
2. Those 100,000,000 shares were held by Glory Cyber Company Limited ("Glory Cyber"), a company incorporated in Hong Kong with limited liability, the issued share capital of which is owned as to 70% by Mr. Luan. Mr. Luan is also a director of Glory Cyber. Glory Cyber's interest in the ordinary shares of the Company is also set out in the section headed "Substantial shareholders' and other persons' interests in shares and underlying shares".

Save as disclosed above, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 23 to the financial statements, 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 minor children, 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 or their respective spouse or minor children to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 23 to the financial statements.

Concerning the share options granted during the year to the directors and employees, as detailed in note 23 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the following interests of 5% or more in the issued share capital, share options and convertible redeemable notes of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of issued share capital of the Company	Number of underlying shares of the Company held	Number of ordinary shares and underlying shares of the Company
global.com Investments Corp. (Note 1)	Beneficial owner	155,570,000	20.6%	–	155,570,000
Santana Enterprises Limited (Note 1)	Through a controlled corporation	155,570,000	20.6%	–	155,570,000
Yuen Fat Ching (Note 1)	Settlor	155,570,000	20.6%	–	155,570,000
Bornwise Investments Limited (Note 2)	Security interest	155,570,000	20.6%	–	155,570,000
Cheung Wo Sin (Note 2)	Through a controlled corporation	155,570,000	20.6%	–	155,570,000
Glory Cyber (Note 3)	Beneficial owner	100,000,000	13.3%	–	100,000,000
Mr. Luan (Note 3)	Through a controlled corporation	100,000,000	13.3%	6,000,000	106,000,000
Sun Wah Net Investment Limited ("Sun Wah") (Note 4)	Beneficial owner	95,474,000	12.7%	390,000,000	485,474,000
Sun Wah Hi-Tech Holdings Limited (Note 4)	Through a controlled corporation	95,474,000	12.7%	390,000,000	485,474,000
Choi Koon Shum (Note 4)	Through a controlled corporation	95,474,000	12.7%	390,000,000	485,474,000
Tai Lee Assets Limited (Note 5)	Beneficial owner	94,406,000	12.5%	–	94,406,000
Tsoi Siu Lan, Mazie (Note 5)	Through a controlled corporation	94,406,000	12.5%	–	94,406,000
Ceroilfood Finance Limited (Note 6)	Beneficial owner	83,022,000	11.0%	–	83,022,000
China National Cereals Oils and Footstuffs Import and Export Corporation (Note 6)	Through a controlled corporation	83,022,000	11.0%	–	83,022,000

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

- (1) global.com Investments Corp. is a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of the units of which are owned by The YFC Family Trust, a discretionary trust of which the children of Mr. Yuen Fat Ching ("Mr Yuen") are the only beneficiaries. The balance of 0.1% of the units of The YFC Unit Trust is held by Mr. Yuen's mother. Mr. Yuen is the settlor of The YFC Family Trust.
- (2) Bornwise Investments Limited is a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheung Wo Sin. Bornwise Investments Limited and Mr. Cheung Wo Sin are deemed to be interested in 155,570,000 shares registered in name of global.com Investments Corp. as such shares have been pledged to Bornwise Investments Limited.
- (3) Glory Cyber is a company incorporated in Hong Kong with limited liability, the issued share capital of which is owned as to 70% by Mr. Luan. The indirect interest of Mr. Luan in the 100,000,000 ordinary shares held by Glory Cyber and interest of 6,000,000 share options are also set out in the section "Directors' interests and short positions in shares and underlying shares" above.
- (4) Sun Wah is a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, the brother of Mr. Choi. As at the date of this report, Sun Wah is also the holder of convertible redeemable note and bonds of an aggregate principal amount of HK\$16 million issued by the Company. Upon full conversion of the note and bonds, Sun Wah will hold additional interests ranging from approximately 29.8% to 34.1% of the enlarged issued share capital of the Company without taking into account any of the shares which may fall to be issued upon the exercise of any share options outstanding as at the date of this report. The 390,000,000 shares underlying the convertible redeemable note and bonds represent the maximum number of shares issuable under such convertible redeemable note and bonds.
- (5) Tai Lee Assets Limited is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi.
- (6) Ceroilfood Finance Limited is a wholly-owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state-owned enterprise, which is principally engaged in the import and export of cereals, oil and foodstuffs in The People's Republic of China (the "PRC").

Save as disclosed above, no person other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



# Report of the Directors

## CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 22(iii) to the financial statements.

## ADVANCE TO ENTITIES

The Group continues to record net deficiencies in assets of approximately HK\$13.2 million as at 31 December 2003. As the net tangible value of the Group was negative, the other receivables ("Other Receivables") of the Group as at 31 December 2003 give rise to a disclosure obligation under Rule 17.22 of the GEM Listing Rules, the information specified under Rule 17.17 was included as follows:

<b>Other Receivables</b>	<b>As at 31 December 2003</b>
	HK\$'000
Utility deposits (Note 1)	7
Prepayments (Note 2)	184
	191

Notes:

1. The utility deposits paid comprise the following items:	HK\$'000
Electricity deposits paid to The Hongkong Electric Co, Ltd.	4
IDD deposit paid to SmarTone Mobile Communications Limited	2
Others	1
	7
2. The breakdown of the prepayments is as follows:	HK\$'000
Annual listing fee 2004 paid to the Stock Exchange	150
2004 government annual fee paid to government of the Cayman Islands	19
Others	15
	184

The Other Receivables were paid by the Group either as deposits or under pre-existing legal obligations made in the ordinary course of business of the Group. The Other Receivables are unsecured and non-interest-bearing.



# Report of the Directors

## **CONTRACT OF SIGNIFICANCE**

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

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

## **SPONSOR'S INTEREST**

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

As at 31 December 2003, CCL, its respective directors, employees and associates, did not have any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the two independent non-executive directors, Mr. Cho (Committee Chairman) and Mr. Chan and one executive director, Mr. Chow. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee held four meetings. The Group's financial statements for the year ended 31 December 2003 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.



# Report of the Directors

## COMPETITION AND CONFLICT OF INTERESTS

Mr. Luan is currently in control of a group of companies in the PRC and Hong Kong (the "GF Group") principally engaged in the software development and trading of computer hardware and software. Glory Cyber, being a substantial shareholder of the Company, is one of the members of the GF Group. The main product of the GF Group is logistics software, the main function of which is to assist an enterprise transmitting and managing the flow of capital, inventories, information and human resources. The target customers of GF Group are companies based in the PRC. The Group is considering to expand its business activities to include software development activity. The targeted product of the Group is Internet-based software application. The targeted customers of the Group are private and public sectors in Hong Kong and the PRC. Therefore, the business of the GF Group, which is controlled by Mr. Luan, may compete with the potential business of the Group.

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

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

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

## AUDITORS

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

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

ON BEHALF OF THE BOARD

**Choi Koon Ming**

*Chairman*

Hong Kong

23 March 2004

# Report of the Auditors



安永會計師事務所

To the members

## **Glory Future Group Limited**

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

We have audited the financial statements on pages 28 to 66 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

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

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

## **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

## **Ernst & Young**

*Certified Public Accountants*

Hong Kong  
23 March 2004

# Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	6	1,063	785
Cost of sales		(932)	(953)
Gross profit/(loss)		131	(168)
Other revenue		81	137
Selling and distribution expenses		(212)	(342)
Administrative expenses		(4,843)	(8,909)
Other operating expenses		–	(461)
<b>LOSS FROM OPERATING ACTIVITIES</b>	7	<b>(4,843)</b>	(9,743)
Finance costs	8	(913)	(945)
<b>LOSS BEFORE TAX</b>		<b>(5,756)</b>	(10,688)
Tax	11	–	–
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(5,756)</b>	(10,688)
Minority interests		–	150
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>(5,756)</b>	(10,538)
LOSS PER SHARE	13		
– Basic		HK0.76 cents	HK1.61 cents
– Diluted		N/A	N/A

# Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	171	117
<b>CURRENT ASSETS</b>			
Accounts receivable	16	–	150
Prepayments, deposits and other receivables		191	892
Cash and bank balances		4,349	6,460
		<b>4,540</b>	7,502
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	(37)	(112)
Accrued liabilities, deposits and other payables		(1,048)	(1,237)
Due to a related company	18	(113)	–
Provision	19	–	(283)
		<b>(1,198)</b>	(1,632)
<b>NET CURRENT ASSETS</b>		<b>3,342</b>	5,870
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,513</b>	5,987
<b>NON-CURRENT LIABILITIES</b>			
Due to a minority shareholder of a subsidiary	20	(401)	(401)
Unsecured and interest-free advance	21	(282)	–
Convertible redeemable notes	22	(16,000)	(13,000)
		<b>(16,683)</b>	(13,401)
		<b>(13,170)</b>	(7,414)
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	37,686	37,686
Reserves	24(a)	(50,856)	(45,100)
		<b>(13,170)</b>	(7,414)

Choi Koon Ming  
Director

Hui Ching Shan  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Note	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002		32,686	15,120	(12)	(50,348)	(2,554)
Issue of new shares	23	5,000	1,000	–	–	6,000
Share issue expenses	23	–	(324)	–	–	(324)
Exchange adjustment		–	–	2	–	2
Net gains and losses not recognised in the profit and loss account		–	–	2	–	2
Loss for the year		–	–	–	(10,538)	(10,538)
At 31 December 2002 and 1 January 2003		37,686	15,796	(10)	(60,886)	(7,414)
Loss for the year		–	–	–	(5,756)	(5,756)
At 31 December 2003		37,686	15,796*	(10)*	(66,642)*	(13,170)

\* These reserve accounts comprise the consolidated reserves of HK\$(50,856,000) (2002: HK\$(45,100,000)) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(5,756)</b>	(10,688)
Adjustments for:			
Depreciation	7	<b>157</b>	1,655
Provision for doubtful debts	7	<b>2</b>	82
Provision for legal costs	7	<b>–</b>	133
Provision for impairment of fixed assets	7	<b>–</b>	461
Loss/(gain) on disposal of fixed assets	7	<b>(1)</b>	296
Interest income	7	<b>(62)</b>	(85)
Interest expense	8	<b>913</b>	945
Operating loss before working capital changes		<b>(4,747)</b>	(7,201)
Decrease/(increase) in accounts receivable		<b>148</b>	(123)
Decrease in prepayments, deposits and other receivables		<b>701</b>	482
Increase/(decrease) in accounts payable		<b>(75)</b>	112
Decrease in accrued liabilities, deposits, other payables and provision		<b>(472)</b>	(995)
Increase in an amount due to a related company		<b>113</b>	–
Decrease in an amount due to a minority shareholder of a subsidiary		<b>–</b>	(157)
Increase in unsecured and interest-free advance		<b>282</b>	–
Cash used in operations		<b>(4,050)</b>	(7,882)
Interest paid		<b>(674)</b>	(945)
Net cash outflow from operating activities		<b>(4,724)</b>	(8,827)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		<b>(211)</b>	–
Proceeds from disposal of fixed assets		<b>1</b>	19
Decrease in a pledged bank deposit		<b>–</b>	200
Interest received		<b>62</b>	85
Net cash inflow/(outflow) from investing activities		<b>(148)</b>	304



# Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		–	6,000
Share issue expenses		–	(324)
Net proceeds from issue of convertible redeemable notes	22(i),(iii)	<b>2,761</b>	7,000
Redemption of convertible redeemable notes		–	(1,250)
Capital element of finance lease rental payments		–	(220)
Net cash inflow from financing activities		<b>2,761</b>	11,206
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>(2,111)</b>	2,683
Cash and cash equivalents at beginning of year		<b>6,460</b>	3,775
Effect of foreign exchange rate changes, net		–	2
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>4,349</b>	6,460
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>4,349</b>	6,460

# Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	–	–
<b>CURRENT ASSETS</b>			
Prepayments		169	244
Cash and bank balances		3,861	6,155
		<b>4,030</b>	6,399
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		(445)	(473)
<b>NET CURRENT ASSETS</b>			
		<b>3,585</b>	5,926
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>3,585</b>	5,926
<b>NON-CURRENT LIABILITIES</b>			
Unsecured and interest-free advance	21	(282)	–
Convertible redeemable notes	22	(16,000)	(13,000)
		<b>(16,282)</b>	(13,000)
		<b>(12,697)</b>	(7,074)
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	37,686	37,686
Reserves	24(b)	(50,383)	(44,760)
		<b>(12,697)</b>	(7,074)

**Choi Koon Ming**  
Director

**Hui Ching Shan**  
Director

# Notes to Financial Statements

31 December 2003

## 1. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group and the Company had net deficiencies in assets as at 31 December 2003. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing and operating measures executed during the year, which include the following:

- (i) On 15 February 2002, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note of the principal amount HK\$7 million to Sun Wah Net Investment Limited ("Sun Wah") which would mature on 28 March 2005. Sun Wah is a substantial shareholder of the Company. Such convertible note is unsecured and bears interest at a rate of 8% per annum. The interest is repayable half yearly in arrears. Pursuant to a deed of confirmation signed between the Company and Sun Wah dated 8 September 2003, the accrued interest of HK\$282,000 due on 28 September 2003 is treated as an unsecured and interest-free advance, which is repayable at the initiative of the Company but no later than 28 March 2005. It is the intention of the directors that the interest will not be paid within twelve months from the balance sheet date and accordingly, the unsecured and interest-free advance has been classified as a non-current liability of the Group and the Company. Further details are set out in the notes 21 and 22(ii) to the financial statements.
- (ii) On 8 September 2003, the Company entered into a further subscription agreement of HK\$9 million with Sun Wah relating to the issue of convertible redeemable bonds of the principal amount HK\$9 million (the "Bonds") which would mature on 27 October 2006. The convertible redeemable bonds are unsecured and bear interest at a rate of 3% per annum. The net proceeds from the issue of the Bonds after issuing expenses, are approximately HK\$8.6 million. The remaining proceeds, of HK\$2.36 million, after repaying the principal and respective accrued interest of a convertible redeemable note matured on 19 August 2003, totalling HK\$6.24 million, were set aside as general working capital of the Group.
- (iii) During the year, the directors have taken action to tighten cost controls over various general and administrative expenses. In order to further develop the principal activities of the Group, the directors have decided to place more emphasis on the Internet-based and Windows-based applications business, so as to meet with the increasing demand in Hong Kong and the People's Republic of China (the "PRC"). Furthermore, the directors are considering different business strategies in broadening the Group's income sources and client base. The directors expect that the cost control measures and the new business strategies adopted will improve the profitability and cash flows of the Group.

# Notes to Financial Statements

31 December 2003

## 1. BASIS OF PRESENTATION (continued)

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

## 2. CORPORATE INFORMATION

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

- provision of Internet-based and Windows-based applications and web page design services
- provision of website maintenance and technical support services

## 3. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

## 4. 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 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

### Basis of consolidation (continued)

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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

### Related parties

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

### Impairment of assets

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

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

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

# Notes to Financial Statements

31 December 2003

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

### Fixed assets and depreciation

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

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

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

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

### Operating leases

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

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and on hand, 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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### Provisions

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

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

### Provisions (continued)

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

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

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

### Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

### Foreign currencies

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

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



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

### Foreign currencies (continued)

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

### Retirement benefits scheme

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

The employees of the Group's subsidiary which operates in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

### Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

## 5. 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 the other business segments. Summary details of the business segments are as follows:

- (a) the provision of Internet-based and Windows-based applications and web page design services segment provides application development work, web page development work, and online trade show and exhibition services; and
- (b) the website maintenance and technical support services segment represents the provision of monthly service for maintaining and updating website and consultation services relating to the implementation and application of computer systems.

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

There were no intersegment sales and transfers during the year (2002: Nil).

# Notes to Financial Statements

31 December 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments

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

	Internet-based and Windows-based applications and web page design services		Website maintenance and technical support services		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	1,002	695	61	90	1,063	785
Segment results	(108)	(391)	24	(118)	(84)	(509)
Interest income					62	85
Other revenue					19	52
Unallocated expenses					(4,840)	(9,371)
Loss from operating activities					(4,843)	(9,743)
Finance costs					(913)	(945)
Loss before tax					(5,756)	(10,688)
Tax					-	-
Loss before minority interests					(5,756)	(10,688)
Minority interests					-	150
Net loss from ordinary activities attributable to shareholders					(5,756)	(10,538)

# Notes to Financial Statements

31 December 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

	Internet-based and Windows-based applications and web page design services		Website maintenance and technical support services		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	160	236	15	35	175	271
Unallocated assets	-	-	-	-	4,536	7,348
Total assets					4,711	7,619
Segment liabilities	384	346	1	-	385	346
Unallocated liabilities	-	-	-	-	17,496	14,687
Total liabilities					17,881	15,033
Other segment information:						
Depreciation	147	1,262	10	393	157	1,655
Impairment loss recognised						
in the profit and loss account	-	352	-	109	-	461
Other non-cash expenses	-	455	2	56	2	511
Capital expenditure	198	-	13	-	211	-

# Notes to Financial Statements

31 December 2003

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

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

	Hong Kong		Mainland China		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	303	381	760	404	1,063	785
Other segment information:						
Segment assets	4,495	7,570	216	49	4,711	7,619
Capital expenditure	211	-	-	-	211	-

## 6. TURNOVER

Turnover represents the net invoiced value of services rendered.

# Notes to Financial Statements

31 December 2003

## 7. LOSS FROM OPERATING ACTIVITIES

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

	Note	2003 HK\$'000	2002 HK\$'000
Cost of services provided*		932	953
Auditors' remuneration		280	310
Staff costs (excluding directors' remuneration (note 9)):			
Wages and salaries		835	1,682
Pension scheme contributions (defined contribution scheme)		34	58
		<b>869</b>	1,740
Provision for doubtful debts		2	82
Depreciation	14	157	1,655
Provision for legal costs		–	133
Provision for impairment of fixed assets		–	461
Loss/(gain) on disposal of fixed assets		(1)	296
Minimum lease payments under operating leases:			
Land and buildings		768	1,874
Computer server		71	–
Exchange losses, net		1	4
Interest income		(62)	(85)

\* Cost of services provided included HK\$303,000 (2002: HK\$601,000) relating to staff costs which are also included in the respective total amount disclosed above.

# Notes to Financial Statements

31 December 2003

## 8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank overdrafts	–	2
Interest on finance leases	–	11
Interest on convertible redeemable notes	913	932
	<b>913</b>	<b>945</b>

## 9. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	180	–
Other emoluments of executive directors:		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	735	935
Pension scheme contributions	24	22
	<b>759</b>	<b>957</b>

None of the non-executive or independent non-executive directors received any fees or other reimbursements or emoluments during the year.

Two executive directors each received an individual fee of HK\$90,000 (2002: Nil) for the year.

Two (2002: three) executive directors received individual emoluments of approximately HK\$487,000 and HK\$272,000 (2002: HK\$612,000, HK\$210,000 and HK\$135,000) during the year. No emoluments were paid to the remaining five (2002: two) executive directors during the year.

# Notes to Financial Statements

31 December 2003

## 9. DIRECTORS' REMUNERATION (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

In addition to the above remuneration, share options entitling holders thereof to subscribe for 32,500,000 shares (2002: Nil) were granted to certain directors in respect of their services to the Group during the year, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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 (2002: Nil).

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	506	618
Pension scheme contributions	24	21
	<b>530</b>	<b>639</b>

The remuneration of each of the remaining three (2002: two) non-director, highest paid employees during the year fell within the range of nil to HK\$1,000,000 (2002: Nil to HK\$1,000,000).

During the year, no emoluments were paid by the Group to the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2002: Nil).



# Notes to Financial Statements

31 December 2003

## 10. FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, 1,000,000 (2002: Nil) share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 23 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

## 11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: Nil).

Provision for the tax of profits of subsidiaries operating outside Hong Kong has not been provided as the Group has tax loss brought forward available to set off current year's assessable profits in the respective jurisdictions during the year (2002: Nil).

Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before tax	<b>(5,756)</b>	(10,688)
Tax at the statutory rate of 17.5% (2002: 16%)	<b>(1,007)</b>	(1,710)
Effect of different tax rates of the other countries	<b>22</b>	(64)
Income not subject to tax	<b>(7)</b>	(12)
Expenses not deductible for tax	<b>1,037</b>	1,663
Tax losses not recognised	<b>2</b>	123
Tax losses utilised from previous period	<b>(47)</b>	–
Tax charge at the Group's effective rate	–	–

# Notes to Financial Statements

31 December 2003

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

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2003 was HK\$5,623,000 (2002: HK\$10,196,000 (note 24(b))).

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$5,756,000 (2002: HK\$10,538,000) and the weighted average number of 753,720,000 (2002: 653,993,973) ordinary shares of the Company in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2003 and 2002 have not been disclosed as the share options and convertible redeemable notes outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

## 14. FIXED ASSETS

Group

	Furniture, fixtures and fittings HK\$'000	Computer and office equipment HK\$'000	Total HK\$'000
Cost:			
At beginning of year	2,183	2,188	4,371
Additions	193	18	211
Disposals	(1,953)	(93)	(2,046)
At 31 December 2003	423	2,113	2,536
Accumulated depreciation and impairment:			
At beginning of year	2,183	2,071	4,254
Provided during the year	43	114	157
Disposals	(1,953)	(93)	(2,046)
At 31 December 2003	273	2,092	2,365
Net book value:			
At 31 December 2003	150	21	171
At 31 December 2002	–	117	117

# Notes to Financial Statements

31 December 2003

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Due from a subsidiary	3	–
Due to a subsidiary	(3)	–
	–	–

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
E-silkroad.net Corporation	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	HK\$10,000	–	100%	Development of e-commerce business, provision of web page design and website maintenance services

# Notes to Financial Statements

31 December 2003

## 15. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
E-silkroad.net Online Commerce Limited	Hong Kong	HK\$10,000	–	100%	Dormant
Business Essence Technology Limited	British Virgin Islands/ Hong Kong	US\$1	–	100%	Investment holding, web page design services and application development
E-silkroad.net Resources Limited	British Virgin Islands	US\$1	–	100%	Dormant
中山市光彩未來 軟件有限公司 (formerly 中山 市絲綢路網絡 動力有限公司, “Zhongshan GF”)	PRC *	HK\$8,000,000	–	95%	Provision of web page design services, application development and technical support services

\* Zhongshan GF is registered as a contractual joint venture under the PRC law.

# Notes to Financial Statements

31 December 2003

## 16. ACCOUNTS RECEIVABLE

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

An aged analysis of accounts receivable, based on invoice date and net of provisions, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 3 months	–	144
Over 3 months	–	6
	–	150

## 17. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 3 months	37	–
Over 3 months	–	112
	37	112

## 18. DUE TO A RELATED COMPANY

The balance represents an amount due to Glory Future Software Co., Ltd. ("Glory Software"), of which Mr. Luan Shusheng ("Mr. Luan"), an executive director of the Company, is also a substantial shareholder and director. The amount due to a related company, which represents a sub-contracting fee payable for Internet-based application development (note 25), is unsecured, interest-free and is repayable within 30 days.

# Notes to Financial Statements

31 December 2003

## 19. PROVISION

	Group	
	2003	2002
	HK\$'000	HK\$'000
Provision for legal costs:		
At beginning of year	283	200
Provided during the year	–	133
Amount utilised during the year	(283)	(50)
At 31 December	–	283

The Group was involved in a legal proceeding initiated by a former employee (the "Plaintiff"). During the year, a mutual agreement was reached between the Plaintiff and the Group, and such claim and the related incidental legal and other professional costs have been fully settled.

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

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

## 21. UNSECURED AND INTEREST-FREE ADVANCE

Pursuant to a deed of confirmation signed between the Company and Sun Wah dated 8 September 2003, the Company is not obliged to pay any of the accrued interest (the "Interest") for the redeemable convertible note of HK\$7 million issued on 28 March 2002 (as further detailed in note 22(ii)), due on or before the interest due dates (i.e. 28 September 2003, 28 March 2004, 28 September 2004 and 28 March 2005), if the directors of the Company have issued a written certificate to Sun Wah on the respective due date certifying that the Company is unable to pay the amount of the Interest. The entire sum of the Interest falling due is treated as an unsecured and interest-free advance (the "Advance") made by Sun Wah to the Company. Sun Wah does not have any right to demand for repayment of the Advance and the entire sum of the Advance will only be repaid by the Company to Sun Wah at the initiative of the Company but no later than 28 March 2005.

Prior to the due date on 28 September 2003, the directors of the Company issued a written certificate to Sun Wah certifying that the Company was unable to repay the accrued interest of HK\$282,000 due on 28 September 2003, and the accrued interest was therefore treated as an unsecured and interest-free advance under non-current liabilities. An accrual has been made as at the balance sheet date for the interest arising from 28 September 2003 to 31 December 2003.

# Notes to Financial Statements

31 December 2003

## 22. CONVERTIBLE REDEEMABLE NOTES

	Note	Group and Company	
		2003 HK\$'000	2002 HK\$'000
At beginning of year	(i), (ii)	<b>13,000</b>	7,250
New issue	(iii)	<b>9,000</b>	7,000
Redemption	(i), (iv)	<b>(6,000)</b>	(1,250)
		<b>16,000</b>	13,000

Notes:

- (i) On 3 February 2001, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note to Sun Wah for the principal amount of HK\$8 million. Sun Wah is a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, the brother of the chairman of the Company.

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

Pursuant to a deed of confirmation between the Company and Sun Wah dated 19 August 2003, both parties agreed to change the outstanding principal of HK\$6 million together with the accrued interest of HK\$239,000 of the convertible redeemable note, into an unsecured, interest-free shareholder's loan (the "Shareholder's Loan"). Sun Wah has further undertaken not to demand for repayment of the Shareholder's Loan before (i) 18 February 2004, or (ii) the Company has sufficient available funds for full payment, whichever is earlier. A portion of the proceeds from the issue of the convertible redeemable bonds of principal amount of HK\$9 million as detailed in (iii) below was used by the Company to fully repay the Shareholder's Loan.

- (ii) Pursuant to a subscription agreement dated 15 February 2002, on 28 March 2002, the Company issued a convertible redeemable note to Sun Wah for the principal amount of HK\$7 million. Such convertible note is unsecured and bears interest at a rate of 8% per annum, and the interest is repayable half yearly in arrears. Under the terms of this note, the Company may redeem the whole or part of the principal amount at any time before the maturity date on 28 March 2005, subject to the right of Sun Wah to convert the amount that the Company is exercising its redemption right into Company's ordinary shares of HK\$0.05 each at par, subject to adjustment. Furthermore, Sun Wah has the right to redeem the whole or part of the principal amount in cash or convert the whole or part of the principal amount into the Company's ordinary shares of HK\$0.05 each at par, subject to adjustment, at any time before the maturity date on 28 March 2005. In such circumstances, the Company may, instead of redeeming the note or such part thereof in cash at the face value of the note plus accrued interest, elect to satisfy the redemption by the issue of ordinary shares of the Company.

## 22. CONVERTIBLE REDEEMABLE NOTES (continued)

Notes: (continued)

(ii) (continued)

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

On 8 September 2003, the Company and Sun Wah entered into a deed of confirmation in respect of the repayment of accrued interest on the convertible redeemable note. Further details are set out in note 21 to the financial statements.

(iii) On 27 October 2003, the Company issued convertible redeemable bonds to Sun Wah for the principal amount of HK\$9 million. Such convertible redeemable bonds are unsecured and bear interest, which is repayable half yearly in arrears, at a rate of 3% per annum. Under the terms of these bonds, the Company shall have the right at any time before the maturity date on 27 October 2006, to redeem or purchase the whole or part of the bonds from the holder. Sun Wah has the right to convert the whole or part of the principal amount of the bonds into Company's ordinary shares of HK\$0.05 each at par, subject to adjustment, at any time before the maturity date on 27 October 2006. However, Sun Wah does not have any rights to request for redemption of the whole or part of the convertible bonds before the maturity date on 27 October 2006. Moreover, no assignment or transfer of the bonds may be made without the prior consent of the Company.

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

(iv) On 1 September 2000, the Company entered into a subscription agreement in relation to the issue of a convertible redeemable note to an independent third party (the "Subscriber") for the principal amount of HK\$1.25 million. On 30 April 2002, the Company paid HK\$1.25 million to Tai Lee Assets Limited under the instruction of the Subscriber to redeem the convertible redeemable note. Tai Lee Assets Limited, which became a substantial shareholder of the Company on 17 December 2002, is beneficially owned by Ms. Tsoi Siu Lan, Mazie, the sister of the chairman of the Company.



# Notes to Financial Statements

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## 23. SHARE CAPITAL

Shares	2003 HK\$'000	2002 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	100,000	100,000
Issued and fully paid:		
753,720,000 (2002: 753,720,000) ordinary shares of HK\$0.05 each	37,686	37,686

On 31 December 2002, 100,000,000 ordinary shares of HK\$0.05 each in the capital of the Company were issued to Glory Cyber Company Limited, a company of which Mr. Luan, is also a director and substantial shareholder, at a price of HK\$0.06 per share, giving rise to a share premium of HK\$1,000,000, before share issue expenses of HK\$324,000.

### Share option scheme

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

(a) Pre-IPO share options

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

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

During the year, all of these share options granted to the former directors of the Company were cancelled.

# Notes to Financial Statements

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## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

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

Details of these options are as follows:

Directors	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	At 1 January 2003	Cancelled during the year	At 31 December 2003			
Mr. Choi Koon Ming	5,024,000	-	5,024,000	25 October 2000	8 August 2001 to 7 August 2004	0.25
Mr. Hui Ching Shan	5,024,000	-	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
Mr. Ha Kee Choy, Eugene	5,024,000	(5,024,000)	-	25 October 2000	25 October 2001 to 24 October 2004	0.25
	<u>15,072,000</u>	<u>(5,024,000)</u>	<u>10,048,000</u>			

At 31 December 2003, the number of shares issuable under these share options granted represented approximately 1% of the Company's shares in issue as at that date.

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

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

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

Under the Post-IPO share option scheme, the maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company in issue at any time for which Post-IPO share options may be granted under the Post-IPO share option scheme. However, following the introduction of the revised Chapter 23 of the GEM Listing Rules, the initial total number of shares which may be issued upon exercise of an option to be granted under the Post-IPO share option scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company immediately following the listing of the shares of the Company on the GEM. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO share option scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

The maximum number of share issued and to be issued upon exercise of the options granted under the Post-IPO share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

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

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

# Notes to Financial Statements

31 December 2003

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

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

	Number of share options			At 31 December 2003	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK\$	Closing price of shares immediately before the date of grant of options
	At 1 January 2003	Granted during the year	Lapsed during the year					HK\$
<b>Director</b>								
Mr. Choi Koon Ming	-	7,500,000	-	7,500,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Hui Ching Shan	-	6,000,000	-	6,000,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Ng Kam Yiu	-	3,000,000	-	3,000,000	21 January 2003	8 January 2004 to 7 January 2009	0.115	0.114
Mr. Chow Yeung Tuen, Richard	-	3,000,000	-	3,000,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Ms. Leung Wai Sze	-	4,000,000	-	4,000,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Luan	-	6,000,000	-	6,000,000	30 April 2003	12 February 2004 to 11 February 2009	0.108	0.108
Mr. Chau Chi Man	-	3,000,000	-	3,000,000	30 April 2003	8 April 2004 to 7 April 2009	0.108	0.108
	-	32,500,000	-	32,500,000				
<b>Other employees</b>								
	-	1,500,000	(1,500,000) #	-	21 January 2003	16 March 2003 to 15 March 2008	0.115	0.114
	-	500,000	-	500,000	21 January 2003	29 April 2003 to 28 April 2008	0.115	0.114
	-	500,000	-	500,000	21 January 2003	14 May 2003 to 13 May 2008	0.115	0.114
	-	2,500,000	(1,500,000)	1,000,000				
	-	35,000,000	(1,500,000)	33,500,000				

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercised period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes, in the Company's share capital.
- # The 1,500,000 post-IPO share options lapsed upon the resignation of the employee of the Group.

At 31 December 2003, the number of shares issuable under these share options granted represented approximately 5% of the Company's shares in issue at that date.

At the balance sheet date, the Company had 10,048,000 pre-IPO share options and 33,500,000 post-IPO share options outstanding, respectively, which together represented approximately 6% of the Company's shares in issue as at that date. The exercise in full of all the remaining share options would, under the present capital structure of the Company, result in the issue of 43,548,000 additional shares of HK\$0.05 each with gross proceeds of approximately HK\$6,300,200. Up to the date of this report, none of the share options has been exercised.

## 24. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

# Notes to Financial Statements

31 December 2003

## 24. RESERVES (continued)

### (b) Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	15,120	(50,360)	(35,240)
Loss for the year	–	(10,196)	(10,196)
Issue of new shares	1,000	–	1,000
Share issue expenses	(324)	–	(324)
At 31 December 2002 and 1 January 2003	15,796	(60,556)	(44,760)
Loss for the year	–	(5,623)	(5,623)
At 31 December 2003	15,796	(66,179)	(50,383)

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

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 31 December 2003, the Company did not have any reserves available for distribution.

# Notes to Financial Statements

31 December 2003

## 25. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2003 HK\$'000	2002 HK\$'000
Rental expenses paid to:			
– Sun Wah Hi-Tech (H.K.) Limited ("Sun Wah Hi-Tech")	(a)	<b>280</b>	840
– Wellman Investment Limited ("Wellman")	(b)	<b>90</b>	–
Building management fee paid to SK Property Management Limited ("SK Property")	(b)	<b>35</b>	–
Management fee paid to Sun Wah Hi-Tech	(c)	–	90
Service fee income for Internet-based application and web page design services received from:			
– 新基科技(深圳)有限公司 ("Sun Kai")	(d)	–	(57)
– Sun Wah Media Holdings Limited ("Sun Wah Media")	(e)	<b>(42)</b>	–
– Chinese Media Executives Association Limited ("Chinese Media")	(e)	<b>(29)</b>	–
Subcontracting fee paid to Glory Software	(f)	<b>472</b>	–
General advisory fee paid to Kingsway Capital Limited ("KCL")	(g)	<b>10</b>	–



## 25. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (a) Sun Wah Hi-Tech is a fellow subsidiary of Sun Wah. The Group entered into a lease agreement in respect of the lease of office properties from Sun Wah Hi-Tech on 4 April 2001. The lease term was 12 months commencing on 4 April 2001 and the rental charge was HK\$70,000 per month. No renewal of the lease agreement was made after the expiry of the lease term and the Group continued to use the said office properties at a monthly rental charge of HK\$70,000 until April 2003.
- (b) Wellman and SK Property are companies controlled by a substantial shareholder. The Group leased office properties from Wellman starting from 1 April 2003 at a monthly rental charge of HK\$10,000. No lease agreement in respect of the lease of the office properties has been entered into between the two parties. In addition, a monthly management fee of HK\$3,912 in respect of the office premises leased was charged by SK property.
- (c) The management fee was related to secretarial services provided by Sun Wah Hi-Tech and was charged on a cost-plus basis. No management fee had been paid since April 2002.
- (d) Sun Kai is a fellow subsidiary of Sun Wah. The fee was mutually negotiated between the Group and Sun Kai based on the specification required by Sun Kai as stated in the contract signed between the two parties.
- (e) Sun Wah Media is a fellow subsidiary of Sun Wah and Chinese Media is a company of which two directors of the Company are also directors. The service fee income received during the year was mutually negotiated between the Group and respective parties based on the specification as required by these two related parties.
- (f) The subcontracting fee represents software design and development costs which were mutually negotiated between the Group and Glory Software on the specification required by the customer as stated in the contract signed between the Group and Glory Software.
- (g) KCL is a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("Kingsway"), a company of which Mr. Choi is also a director. The general advisory fee was mutually negotiated between the Group and KCL based on the services provided.
- (h) During the year, Mr. Luan advanced approximately HK\$560,000 to the Group for its daily operation. The advance was unsecured, interest-free and was fully settled by the Group during the year.

# Notes to Financial Statements

31 December 2003

## 25. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (i) On 26 February 2002, the Group entered into a custody agreement (the "Custody Agreement") with 中山市今科信息科技有限公司 (formerly 中山市金科信息網絡有限公司, "STINET"), which is the minority shareholder of a subsidiary which held 5% of Zhongshan GF. Pursuant to the Custody Agreement, the custody fee for safeguarding certain of the Group's fixed assets in the PRC by STINET for a term of 12 months from 26 February 2002 was approximately HK\$113,000. The fee was mutually negotiated between the Group and STINET. During the abovementioned period, most of the fixed assets which were under the custody of STINET were damaged.

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

- (j) On 15 February 2002, Zhongshan GF, as lessor, entered into four conditional five-year lease agreements with two independent third parties (the "Lessees") for the leasing of certain office and computer equipment in return for a total rental payment of approximately HK\$770,000. The Lessees had been instructed by the Group to settle the rental payment directly to STINET. Accordingly, the aforesaid receivable from the Lessees had been set off against the amount due to STINET.
- (k) During the year ended 31 December 2002, accounts payable of approximately HK\$94,000 and accrued liabilities of approximately HK\$405,000 were settled by STINET on behalf of Zhongshan GF.
- (l) During the year ended 31 December 2002, STINET had agreed with Zhongshan GF to undertake and complete all contracts (the "Contracts") signed by Zhongshan GF during the period from April 2000 to December 2001 for the provision of Internet-related services. STINET and Zhongshan GF further agreed that Zhongshan GF would no longer have any rights or obligations on the Contracts.

According to the terms of the Contracts, deposits of approximately HK\$592,000 were received by Zhongshan GF in previous years. Pursuant to the abovementioned arrangement, STINET had guaranteed not to recover the deposits received by Zhongshan GF in previous years. As at 31 December 2002, certain contracts were completed by STINET and deposits of approximately HK\$358,000 received by Zhongshan GF brought forward from the prior year were recognised as turnover during the year ended 31 December 2002. During the year, no deposits received were recognised as turnover.

# Notes to Financial Statements

31 December 2003

## 26. OPERATING LEASE ARRANGEMENTS

The Group leases its computer server and premises under operating lease arrangements. Leases for computer server and properties are negotiated for terms ranging from six months to one year.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Operating leases within one year in respect of:		
– Land and buildings	–	438
– Computer server	28	–
	<b>28</b>	<b>438</b>

## 27. COMMITMENTS

At 31 December 2003, neither the Company nor the Group had any commitments.

## 28. CONTINGENT LIABILITIES

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

## 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2004.

# Appendix

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results of the Group for each of the five years ended 31 December 2003 prepared on the basis set out in note 1 below.

### RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<b>1,063</b>	785	6,543	3,080	–
LOSS BEFORE TAX	<b>(5,756)</b>	(10,688)	(27,865)	(20,028)	(749)
Tax	–	–	–	–	–
Loss before minority interests	<b>(5,756)</b>	(10,688)	(27,865)	(20,028)	(749)
Minority interests	–	150	175	75	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(5,756)</b>	(10,538)	(27,690)	(19,953)	(749)

# Appendix

## ASSETS AND LIABILITIES

	<b>2003</b>	2002	<b>31 December</b>		
	<b>HK\$'000</b>	HK\$'000	2001	2000	1999
			HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	<b>4,711</b>	7,619	8,873	8,688	396
TOTAL LIABILITIES	<b>(17,881)</b>	(15,033)	(11,427)	(12,155)	(401)
	<b>(13,170)</b>	(7,414)	(2,554)	(3,467)	(5)

Note:

1. The summary of the consolidated results of the Group for the year ended 31 December 1999 has been extracted from the Company's prospectus dated 26 February 2001. Such summary was prepared based on the audited consolidated financial statements of the Group as if the structure of the Group had been in existence throughout the financial year. The results of the Group for the four years ended 31 December 2003 were extracted from the audited financial statements of the Company.