

Notes to Financial Statements

31 December 2002

1. CORPORATE INFORMATION

During the year, the Group was involved in the provision of logistics technology services.

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

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

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

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

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

Notes to Financial Statements

31 December 2002

2. **IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE** *(Continued)*

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

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

Basis of consolidation

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

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.

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's investments in associates.

When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the Group and the associates that occur between the date of the associate's financial statements and the date of the Group's financial statements.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

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.

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Impairment of assets**

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

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

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

Fixed assets and depreciation

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

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

Leasehold improvements	10% - 16.7%
Motor vehicles, computer and office equipment, furniture and fixtures	15% - 33.3%

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.

Research and development costs

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

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

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets

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

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

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 the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Contracts for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

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

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

Deferred tax

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

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 sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- (b) from the rendering of services, based on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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 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 subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their salaries 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.

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.

Notes to Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Foreign currencies** (Continued)

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, and the adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

4. SEGMENT INFORMATION

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

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

- (a) the logistics technology segment provides consultancy services for logistics management, together with the supply of related software; and
- (b) the bowling recreation segment (discontinued last year - note 6) involved the operation of bowling recreation centres.

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.

No intersegment sales or transfers were transacted during the year (2001: Nil).

Notes to Financial Statements

31 December 2002

4. SEGMENT INFORMATION (Continued)**(a) Business segments**

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

Group

	Continuing operations Logistics technology		Discontinued operations Bowling recreation		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	18,511	61,920	—	889	18,511	62,809
Rental income	—	—	—	1,132	—	1,132
Total	18,511	61,920	—	2,021	18,511	63,941
Segment results	(59,148)	(25,921)	—	(666)	(59,148)	(26,587)
Interest income					2,182	6,791
Unallocated expenses					(16,252)	(2,287)
Loss from operating activities					(73,218)	(22,083)
Finance costs					(1,565)	(326)
Share of losses of:						
Jointly-controlled entity					(128)	—
Associates					(17,363)	(70)
Amortisation of goodwill on acquisition of associates					(670)	—
Loss before tax					(92,944)	(22,479)
Tax					—	(183)
Loss before minority interests					(92,944)	(22,662)
Minority interests					3,550	(1,690)
Net loss from ordinary activities attributable to shareholders					(89,394)	(24,352)

Notes to Financial Statements

31 December 2002

4. SEGMENT INFORMATION (Continued)
(a) Business segments (Continued)
Group

	Continuing operations Logistics technology		Discontinued operations Bowling recreation		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	185,570	166,276	—	—	185,570	166,276
Investments in associates	15,621	3,649	—	—	15,621	3,649
Unallocated amounts					93,903	—
					109,524	3,649
Investment in a jointly-controlled entity	262	—	—	—	262	—
Long term listed investments					1,520	60,498
Unallocated assets					5,052	133,048
Total assets					301,928	363,471
Segment liabilities	7,529	12,357	—	4,150	7,529	16,507
Unallocated liabilities					43,744	39,286
Total liabilities					51,273	55,793
Other segment information:						
Depreciation and amortisation	6,052	2,138	—	349	6,052	2,487
Loss on disposal of fixed assets	668	46	—	—	668	46
Write off of fixed assets	4,508	—	—	—	4,508	—
Provision for bad and doubtful debts	1,104	—	—	—	1,104	—
Provision for other receivables	3,819	—	—	—	3,819	—
Unallocated amounts					2,830	—
					6,649	—
Co-operation fee	—	—	—	75	—	75
Capital expenditure	1,869	15,267	—	—	1,869	15,267

Notes to Financial Statements

31 December 2002

4. SEGMENT INFORMATION (Continued)**(b) Geographical segments**

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

Group	Mainland China		Hong Kong		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	14,348	61,168	4,163	1,641	18,511	62,809
Other segment information:						
Segment assets	127,057	161,356	174,871	202,115	301,928	363,471
Capital expenditure	1,368	5,373	501	9,894	1,869	15,267

5. TURNOVER AND REVENUE

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

Revenue from the following activities has been included in turnover:

	Group	
	2002 HK\$'000	2001 HK\$'000
Logistics technology business	18,511	61,920
Bowling recreation business	—	889
	18,511	62,809

6. DISCONTINUED OPERATIONS

On 17 May 2001, the Company publicly announced the decision of its board of directors to discontinue the operation of bowling recreation centres by completely disposing of certain subsidiaries, the principal activity of which was the operation of bowling recreation centres in Mainland China. The disposal is consistent with the Group's long term strategy to concentrate on its logistics technology business. The discontinuance was completed in May 2001.

Notes to Financial Statements

31 December 2002

6. DISCONTINUED OPERATIONS *(Continued)*

The turnover, other revenue, expenses and results of the bowling operation recreation business included in the Group's results for the year ended 31 December 2001 were as follows:

	2001 HK\$'000
TURNOVER	889
Cost of sales	(1,096)
Gross loss	(207)
Other revenue	1,132
Administrative expenses	(1,057)
Loss on disposal of discontinued operations	(534)
LOSS BEFORE TAX	(666)
Tax	—
LOSS BEFORE MINORITY INTERESTS	(666)
Minority interests	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(666)

Notes to Financial Statements

31 December 2002

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Notes	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold		2,249	14,680
Cost of services provided		12,488	28,528
Depreciation	14	2,102	1,716
Auditors' remuneration		970	563
Co-operation fee		—	75
Minimum lease payments under operating leases in respect of land and buildings		4,874	6,153
Staff costs, excluding directors' remuneration (note 9):			
Salaries		23,134	36,008
Retirement benefits scheme contributions		280	221
		23,414	36,229
Research and development costs		4,230	—
Amortisation of goodwill *	15	3,950	771
Loss on disposal of fixed assets		668	46
Write off of fixed assets		4,508	—
Exchange losses, net		6	18
Provision for impairment of long term listed investments	19	12,703	—
Provision for bad and doubtful debts		1,104	—
Provision for other receivables		6,649	—
and after crediting:			
Bank interest income		846	5,580
Other loan interest income		1,336	1,211
Gross and net rental income		—	1,132

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes to Financial Statements

31 December 2002

8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable within one year	370	132
Interest on convertible bond	1,179	194
Interest on finance leases	16	—
Total finance costs	1,565	326

9. DIRECTORS' REMUNERATION

The remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	220	211
Other emoluments:		
Salaries, allowances and benefits in kind	3,268	2,211
Retirement benefits scheme contributions	37	26
	3,525	2,448

Fees include HK\$220,000 (2001: HK\$211,000) payable to the non-executive directors.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	9	11
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$1,500,001 — HK\$2,000,000	1	—
	11	12

Notes to Financial Statements

31 December 2002

9. DIRECTORS' REMUNERATION (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil). 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 (2001: Nil).

During the year, 40,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the consolidated profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	2,574	1,811
Retirement benefits scheme contributions	24	25
	2,598	1,836

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

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	2	3
HK\$1,000,001 — HK\$1,500,000	1	—
	3	3

During the year, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2001: Nil).

During the year, 3,700,000 share options were granted to two of the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the consolidated profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2002

11. TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
Hong Kong	—	183
Tax charge for the year	—	183

No provision for profits tax has been made as the Group did not generate any assessable profits during the year. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in the prior year.

Deferred tax has not been provided for the Group or the Company as there were no significant timing differences giving rise to deferred tax liabilities at 31 December 2002 (2001: Nil).

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$96,104,000 (2001: HK\$46,122,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$89,394,000 (2001: HK\$24,352,000), and the weighted average of 3,342,852,413 (2001: 2,885,446,921) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2002 and 2001 have not been disclosed, as the share options and convertible bond outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

Notes to Financial Statements

31 December 2002

**14. FIXED ASSETS
Group**

	Leasehold improvements HK\$'000	Motor vehicles, computer and office equipment, furniture and fixtures HK\$'000	Total HK\$'000
Cost:			
At beginning of year	1,417	15,526	16,943
Acquisition of subsidiaries (note 31(b))	—	460	460
Additions	—	1,869	1,869
Disposals	—	(1,324)	(1,324)
Written off	(724)	(3,870)	(4,594)
Deemed disposal of subsidiaries (note 31(d))	(575)	(5,027)	(5,602)
At 31 December 2002	118	7,634	7,752
Accumulated depreciation:			
At beginning of year	86	606	692
Provided during the year	24	2,078	2,102
Disposals	—	(649)	(649)
Written back	(86)	—	(86)
Deemed disposal of subsidiaries (note 31(d))	—	(253)	(253)
At 31 December 2002	24	1,782	1,806
Net book value:			
At 31 December 2002	94	5,852	5,946
At 31 December 2001	1,331	14,920	16,251

Notes to Financial Statements

31 December 2002

14. FIXED ASSETS (Continued)
Company**Motor vehicles, computer
and office equipment,
furniture and fixtures**
HK\$'000

Cost:	
At beginning of year	926
Additions	1,467
Disposals	(18)
	<hr/>
At 31 December 2002	2,375
	<hr/>
Accumulated depreciation:	
At beginning of year	—
Provided during the year	523
Disposals	(1)
	<hr/>
At 31 December 2002	522
	<hr/>
Net book value:	
At 31 December 2002	1,853
	<hr/>
At 31 December 2001	926
	<hr/>

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2002, amounted to HK\$439,000 (2001: Nil).

Notes to Financial Statements

31 December 2002

15. GOODWILL

The amounts of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, are as follows:

	Notes	Group HK\$'000
Cost:		
At beginning of year		18,175
Acquisition of subsidiaries	31(b)	81,275
Acquisition of additional interests in subsidiaries	28(b),33(2)	26,530
Deemed disposal of subsidiaries	31(d)	(13,711)
Transfer to interests in associates	18	(7,194)
<hr/>		
At 31 December 2002		105,075
Accumulated amortisation:		
At beginning of year		771
Amortisation provided during the year		3,950
Deemed disposal of subsidiaries	31(d)	(703)
Transfer to interests in associates	18	(386)
<hr/>		
At 31 December 2002		3,632
Net book value:		
At 31 December 2002		101,443
<hr/>		
At 31 December 2001		17,404
<hr/>		

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	10,939	143,939
Due from subsidiaries	329,852	179,378
Due to subsidiaries	(2,085)	(1,394)
<hr/>		
Less: Provision for impairment	338,706 (86,900)	321,923 (139,900)
<hr/>		
	251,806	182,023
<hr/>		

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

Notes to Financial Statements

31 December 2002

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Directly held:					
Vision On-Line Limited ("Vision")	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
Asia Logistics Technologies (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	100	100	Provision of management services
Funcapital Inc.	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
New Jade Tech Limited	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
Best Cyber Limited	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
Asia Logistics Technologies Services Limited	Hong Kong	Ordinary HK\$2	100	100	Logistics technology business
Front Yard Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100	100	Investment in securities
Oriental Supremacy Ltd.	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
亞洲物流科技 (中國)有限公司 ("ALT China")	PRC/ Mainland China	Registered capital US\$1,400,000	100	100	Logistics technology business
Indirectly held:					
Cyber Pilot Limited *	British Virgin Islands	Ordinary US\$2,000	100	—	Investment holding

Notes to Financial Statements

31 December 2002

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows (Continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Indirectly held:					
Fusion Tech Holding Limited ("Fusion Tech") *	British Virgin Islands	Ordinary US\$100,000	100	—	Investment holding
Compass E-Commerce Limited *	Hong Kong	Ordinary HK\$2	100	—	Investment holding
Asia Logistics (Tianjin) Limited ("ALT Tianjin") @	PRC/ Mainland China	Registered capital US\$5,000,000	100	—	Logistics technology business
北京金柏新干線信息 科技有限公司 ("Xinganxian") *	PRC/ Mainland China	Registered capital HK\$10,000,000	100	—	Logistics technology business
Han International Consulting Company Limited #	British Virgin Islands	Ordinary US\$5,000 (2001: US\$1,141)	30	57.1	Investment holding
漢普管理諮詢 (中國)有限公司 ("HAN China") #	PRC/ Mainland China	Registered capital US\$6,000,000	30	57.1	Logistics technology business

* subsidiaries acquired during the year. For further details, please refer to note 31(b) to the financial statements.

@ subsidiary established during the year.

subsidiaries deemed disposed of during the year and subsequently equity accounted for as associates (note 18). For details, please refer to note 31(d) to the financial statements.

Note: ALT China, ALT Tianjin and Xinganxian are wholly foreign owned enterprises established in the PRC. The registered capitals are US\$1.4 million, US\$5 million and HK\$10 million, respectively, of which US\$1.4 million, US\$1.8 million and HK\$10 million, respectively, were paid up as at 31 December 2002.

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

Notes to Financial Statements

31 December 2002

17. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	262	—

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activity
			2002	2001	
Indirectly held:					
漢道科技諮詢 (珠海)有限公司	Corporate	PRC/ Mainland China	50	—	Operation of offshore development centre

18. INVESTMENTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	91,571	3,649
Goodwill on acquisition	17,953	—
	109,524	3,649
Market value of listed shares at the balance sheet date	48,013	—

Balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2002

18. INVESTMENTS IN ASSOCIATES (Continued)

The amount of the goodwill capitalised as an asset, arising from the acquisition of interests in associates during the year, is as follows:

	Group HK\$'000
Cost:	
Acquisition of associates during the year	11,815
Transfer from goodwill on deemed disposal of subsidiaries (note 15)	7,194
<hr/>	
At 31 December 2002	19,009
Accumulated amortisation:	
Amortisation provided during the year	670
Transfer from goodwill on deemed disposal of subsidiaries (note 15)	386
<hr/>	
At 31 December 2002	1,056
Net book value:	
At 31 December 2002	<u>17,953</u>

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2002	2001	
Indirectly held:					
New World CyberBase Limited * @	Corporate	Bermuda/ Hong Kong	27.5	18.5	Provision of one-stop-shop e-business solutions
Han International Consulting Company Limited * #	Corporate	British Virgin Islands	30	57.1	Investment holding
漢普管理諮詢 (中國)有限公司 * #	Corporate	PRC/ Mainland China	30	57.1	Logistics technology business

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

@ the Group's interest in New World CyberBase Limited was accounted for as a long term investment (note 19) prior to the increase in the Group's interest during the year (note 33(c)).

subsidiaries deemed disposed of during the year and subsequently accounted for as associates (note 16).

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

Notes to Financial Statements

31 December 2002

18. INVESTMENTS IN ASSOCIATES (Continued)

Included in the Group's share of net assets of associates is the share of net assets of New World CyberBase Limited ("NWCB"), a company incorporated in Bermuda and the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and its subsidiaries (collectively the "NWCB Group") which, in the opinion of the directors, is material in the context of the Group's financial statements. Extracts of the unaudited consolidated balance sheet and unaudited consolidated profit and loss account of the NWCB Group, based on the published unaudited interim consolidated financial statements of the NWCB Group for the six months ended 30 September 2002, are set out below:

NWCB Group	As at 30 September 2002 (unaudited) HK\$'000
Non-current assets	427,275
Current assets	67,588
Current liabilities	(90,734)
Non-current liabilities	(103,549)
Minority interests	(198)
	<u>300,382</u>
Contingent liabilities:	
Guarantee in respect of credit facilities granted to a former associated company	86,000
	Six months ended 30 September 2002 (unaudited) HK\$'000
Turnover	<u>16,251</u>
Profit before tax	1,621
Tax	—
Minority interests	—
Profit attributable to shareholders	<u>1,621</u>

NWCB'S financial year end date is 31 March, which is not coterminous with the Group.

Notes to Financial Statements

31 December 2002

19. LONG TERM LISTED INVESTMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Hong Kong listed equity investments, at cost	14,223	60,498
Less: Provision for impairment	(12,703)	—
	1,520	60,498

The market values of the Group's long term listed equity investments at the balance sheet date and at the date of approval of these financial statements were approximately HK\$1.5 million (2001: HK\$61.7 million) and HK\$3.3 million (2001: HK\$41.7 million), respectively.

The above balance as at 31 December 2001 included an investment in the following company, the carrying value of which exceeded 10% of the total assets of the Group as at 31 December 2001:

Name	Place of incorporation	Principal activity	Issued share capital 2001	Percentage of equity interest 2001
New World CyberBase Limited	Bermuda	Provision of one-stop-shop e-business solutions	3,805,307,441 ordinary shares of HK\$0.02 each	18.5

During the year, the Group's interest in NWCB was increased to approximately 27.5%. Consequently, the interest in NWCB was subsequently equity accounted for as an investment in an associate (note 18).

20. EXCHANGEABLE NOTES

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Exchangeable notes subscribed by Digital Spirit Limited	(a)	28,000	—
Exchangeable notes subscribed by Funcapital Inc.	(b)	—	75,560
		28,000	75,560

Notes to Financial Statements

31 December 2002

20. EXCHANGEABLE NOTES (Continued)*Notes:*

- (a) On 19 September 2002, Digital Spirit Limited (“Digital Spirit”), a wholly-owned subsidiary of the Company, subscribed for exchangeable notes of HK\$28 million issued by two independent third parties (the “Issuers”). Each of the Issuers held 25% of the issued share capital of Eastern Info Limited (“Eastern Info”), a company incorporated in the British Virgin Islands. Eastern Info owns a 100% equity interest in 北京掌運科技有限公司 (“Beijing Technology”, a company registered in the PRC, with Mr. Zhao Rui, who became a director of the Company since 30 October 2002, is also a director of Beijing Technology), an integrated logistics and supply chain technology services provider in the PRC.

The exchangeable notes gave Digital Spirit the ability to exchange the notes for 50% of the issued share capital of Eastern Info. The total subscription price of the exchangeable notes was satisfied in full at completion by a cash payment of HK\$28 million. The exchangeable notes bore interest at a rate of 3% per annum payable only on the redemption date or maturity date, which was twelve months from the date of the agreement but was extendable by a further twelve months upon written request by the Issuers. No interest will be accrued on the notes after they are exchanged for shares in Eastern Info. The exchangeable notes are secured by a share charge over 50% of the issued share capital of Eastern Info.

Subsequent to the balance sheet date, on 1 April 2003, Digital Spirit entered into agreements (the “Redemption Agreements”) with the Issuers, pursuant to which Digital Spirit demanded early redemption and repayment of the entire principal amount of HK\$14 million from each of the Issuers and the Issuers agreed to repay the principal amount in accordance with the repayment schedule set out therein. Digital Spirit received HK\$11 million from each of the Issuers in April 2003. Pursuant to the Redemption Agreements, the remaining aggregate principal amount of HK\$6 million will be settled no later than 31 May 2003 and is secured by the entire shares of Eastern Info held by the Issuers.

- (b) During the year ended 31 December 2001, Funcapital Inc. (“Funcapital”), a wholly-owned subsidiary of the Company, subscribed for a total of HK\$75,560,000 of exchangeable notes (the “Exchangeable Notes”) issued by Westwood Technologies Company Limited (“Westwood”), a company incorporated in the British Virgin Islands. The Exchangeable Notes gave Funcapital the ability to exchange the notes for 100% of the issued share capital of Cyber Pilot Limited (“Cyber Pilot”), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Westwood. The total subscription price of the Exchangeable Notes was satisfied in full at completion by a cash payment of HK\$75,560,000.

On 3 January 2002, Funcapital exercised all of the Exchangeable Notes in exchange for 100% of the issued capital of Cyber Pilot, which thereafter became a wholly-owned subsidiary of the Company.

Notes to Financial Statements

31 December 2002

21. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Computer software	—	1,131
Personal digital assistants	7,258	—
	7,258	1,131

None of the above inventories was carried at net realisable value as at 31 December 2002 (2001: Nil).

22. TRADE RECEIVABLES

An aged analysis of the trade receivables as at 31 December 2002, based on the date of recognition of the sale, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	486	24,229
91 to 180 days	583	1,351
	1,069	25,580

The Group normally allows credit terms to customers not exceeding 180 days.

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	10,120	4,426	3,872	433
Time deposits	27,548	128,622	27,548	126,122
	37,668	133,048	31,420	126,555
Less: Pledged time deposits for Xinganxian banking facilities	—	(2,500)	—	—
	37,668	130,548	31,420	126,555

Notes to Financial Statements

31 December 2002

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (Continued)

The Renminbi ("RMB") is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

The trade payable balances as at 31 December 2001 and 31 December 2002 were aged less than three months.

25. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its logistics technology business. These leases are classified as finance leases and have remaining lease terms ranging from two to five years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	98	—	83	—
In the second year	95	—	85	—
In the third to fifth years, inclusive	151	—	141	—
Total minimum finance lease payments	344	—	309	—
Future finance charges	(35)	—		
Total net finance lease payables	309	—		
Portion classified as current liabilities	(83)	—		
Non-current portion	226	—		

Notes to Financial Statements

31 December 2002

26. DUE TO A RELATED COMPANY

The amount due to a related company which is controlled by a director of the Company is unsecured, interest-free and has no fixed terms of repayments.

27. CONVERTIBLE BOND

In November 2001, the Company issued a HK\$39,286,000 convertible bond (the "Convertible Bond") to New World CyberBase Nominee Limited ("NWCN"), a company incorporated in the British Virgin Islands and a subsidiary of New World Development Company Limited, a company incorporated in Hong Kong and whose shares are listed on the Stock Exchange. The Convertible Bond is convertible at an initial conversion price of HK\$0.10 per share of the Company (subject to adjustment) at any time from and including the first anniversary of the date of the issue of the Convertible Bond until the maturity date ending on the last business day preceding the third anniversary of the date of the issue of the Convertible Bond (i.e. 1 November 2004). The Convertible Bond bears interest at 3% per annum which accrues on a day-to-day basis on the principal amount of the Convertible Bond outstanding, and is payable semi-annually in arrears. The outstanding principal amount of the Convertible Bond together with interest accrued thereon will, unless previously converted into the Company's shares or redeemed in accordance with the terms of the Convertible Bond, be repaid subject to and in accordance with the terms of the Convertible Bond on 1 November 2004.

28. SHARE CAPITAL
Shares

	2002 HK\$'000	2001 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
3,641,555,700 (2001: 3,182,434,000) ordinary shares of HK\$0.01 each	36,415	31,824

Notes to Financial Statements

31 December 2002

28. SHARE CAPITAL (Continued)

During the year, the movements in the share capital were as follows:

- (a) Pursuant to a subscription agreement dated 21 March 2002, Grade Win International Limited ("Grade Win"), a company incorporated in Hong Kong with limited liability which is a wholly-owned subsidiary of Legend Group Limited ("Legend"), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange, subscribed for 159,121,700 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.15 per share in the event that the average closing price of the shares of the Company as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the completion date (the "Average Closing Price") was equal to or higher than HK\$0.125 per share or 1.2 times of the Average Closing Price in the event that the Average Closing Price was lower than HK\$0.125 per share. The subscription of the new shares was completed on 10 May 2002 and the new shares were issued at a price of approximately HK\$0.1332 per share on the same date. A sum of approximately HK\$20 million, net of share issue expenses, was raised and used by the Group for general working capital purposes. The excess of the proceeds over the nominal value of the shares issued was credited to the share premium account.

Further details of the subscription of the above shares were set out in a circular to the shareholders of the Company dated 10 April 2002.

- (b) During the year, the Company acquired an approximate 45.702% equity interest in Fusion Tech from Southern Victory Developments Limited ("Southern Victory"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Lam Yan Chit, Humfry, a director of Fusion Tech, at a consideration of HK\$45,400,000, based on the price stated in the sale and purchase agreement of HK\$0.15. The consideration was satisfied by the allotment and issue of 300,000,000 shares (the "Consideration Shares") of HK\$0.01 each in the capital of the Company and a cash payment of HK\$400,000 at completion. Upon completion of the above acquisition on 23 October 2002, the Consideration Shares were issued on the same date when the market price of the Company's shares was HK\$0.078 per share, which was the amount used in the calculation of the amount of goodwill on acquisition. Goodwill of HK\$23,800,000 arose on this transaction.

Further details of the above share transaction are set out in a circular to the shareholders of the Company dated 27 September 2002.

Notes to Financial Statements

31 December 2002

28. SHARE CAPITAL (Continued)

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

	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2001	2,576,588	25,766	177,904	203,670
Placement of new shares	505,846	5,058	83,464	88,522
Shares issued for acquisition of NWCB	100,000	1,000	9,000	10,000
	605,846	6,058	92,464	98,522
Share issue expenses	—	—	(1,774)	(1,774)
At 31 December 2001 and 1 January 2002	3,182,434	31,824	268,594	300,418
Subscription of new shares (a)	159,122	1,591	19,604	21,195
Shares issued for acquisition of Fusion Tech (b)	300,000	3,000	20,400	23,400
	459,122	4,591	40,004	44,595
Share issue expenses	—	—	(718)	(718)
At 31 December 2002	3,641,556	36,415	307,880	344,295

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Share option scheme" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosures are also a requirement of the Listing Rules.

Notes to Financial Statements

31 December 2002

29. SHARE OPTION SCHEME *(Continued)*

Pursuant to ordinary resolutions passed at an extraordinary general meeting of the Company held on 28 May 2002, a new share option scheme (the "New Scheme") was adopted by the Company and the share option scheme adopted on 11 September 1998 (the "Old Scheme") was terminated. Upon the termination of the Old Scheme, no further options can be granted under the Old Scheme. However, the outstanding share options granted under the Old Scheme continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the New Scheme include all directors and employees of the Group, suppliers of goods or services, customers, agents, consultants and shareholders of any member of the Group.

The total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company (the "Shares") in issue as at the date of approval of the New Scheme. The total number of shares issued and to be issued upon exercise of share options granted to each eligible participant (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options. The directors may at their absolute discretion impose any vesting period at the time of grant.

The exercise price of the share options is determinable by the directors at their absolute discretion at the time of the grant of the relevant share options, but may not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares on the date of grant.

The New Scheme is valid and effective for a period of 10 years commencing on 28 May 2002.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to Financial Statements

31 December 2002

29. SHARE OPTION SCHEME (Continued)

As at 31 December 2002, the number of shares available for issue under the New Scheme is 334,155,570 shares, representing approximately 9.18% of the issued share capital of the Company as at the date of these financial statements.

No share options were granted under the New Scheme during the year.

The following share options were outstanding under the Old Scheme during the year:

Name or category of participant	Number of share options			At 31 December 2002	Date of grant of share options*	Exercise price of share options** HK\$	Exercise period of share options	Price of Company's shares at grant date of options*** HK\$
	At 1 January 2002	Grant during the year	Lapsed during the year					
<i>Directors</i>								
Mr. Lo Lin Shing, Simon	57,000,000	—	—	57,000,000	14 August 2000	0.284	15 August 2000 to 14 August 2003	0.38
	—	20,000,000	—	20,000,000	8 February 2002	0.150	9 February 2002 to 8 February 2008	0.148
Mr. Chan Ki	57,000,000	—	—	57,000,000	14 August 2000	0.284	15 August 2000 to 14 August 2003	0.38
Mr. Chan Wai Keung, Ringo	—	10,000,000	—	10,000,000	8 February 2002	0.150	9 February 2002 to 8 February 2008	0.148
Mr. Yu Ansheng, Ben	—	10,000,000	—	10,000,000	8 February 2002	0.150	9 February 2002 to 8 February 2008	0.148
<i>Employees</i>	—	10,300,000	(4,400,000)	5,900,000	8 February 2002	0.150	9 February 2002 to 8 February 2008	0.148
Total	114,000,000	50,300,000	(4,400,000)	159,900,000				

Notes to Financial Statements

31 December 2002

29. SHARE OPTION SCHEME (Continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise 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 price of the Company's shares disclosed as at the date of the grant of the share options is the closing price of the shares of the Company on the Stock Exchange on the trading day immediately prior to the respective date of the grant of the options.

At the balance sheet date, the Company had 159,900,000 share options outstanding under the Old Scheme. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 159,900,000 additional ordinary shares of the Company and additional share capital of HK\$1,599,000 and share premium of HK\$37,662,000 (before issue expenses).

30. RESERVES
Group

	Notes	Share premium account HK\$'000	PRC statutory surplus reserve HK\$'000 (note ii)	Discretionary surplus reserve HK\$'000 (note iii)	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000
At 1 January 2001		177,904	7,189	14,378	20,106	219,577
Premium on issue of shares	28	92,464	—	—	—	92,464
Share issue expenses	28	(1,774)	—	—	—	(1,774)
Disposal of subsidiaries		—	(7,189)	(14,378)	—	(21,567)
Loss for the year		—	—	—	(24,352)	(24,352)
At 31 December 2001 and 1 January 2002		268,594	—	—	(4,246)	264,348
Premium on issue of shares	28	40,004	—	—	—	40,004
Share issue expenses	28	(718)	—	—	—	(718)
Loss for the year		—	—	—	(89,394)	(89,394)
At 31 December 2002		307,880	—	—	(93,640)	(214,240)
Reserves retained by:						
Company and subsidiaries		307,880	—	—	(76,079)	231,801
Jointly-controlled entity		—	—	—	(128)	(128)
Associates		—	—	—	(17,433)	(17,433)
At 31 December 2002		307,880	—	—	(93,640)	214,240
Company and subsidiaries		268,594	—	—	(4,176)	264,418
Associate		—	—	—	(70)	(70)
At 31 December 2001		268,594	—	—	(4,246)	264,348

Notes to Financial Statements

31 December 2002

30. RESERVES (Continued)
Company

	Notes	Share premium account HK\$'000 (note i)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001		310,894	(91,317)	219,577
Premium on issue of shares	28	92,464	—	92,464
Share issue expenses	28	(1,774)	—	(1,774)
Loss for the year		—	(46,122)	(46,122)
At 31 December 2001 and 1 January 2002		401,584	(137,439)	264,145
Premium on issue of shares	28	40,004	—	40,004
Share issue expenses	28	(718)	—	(718)
Loss for the year		—	(96,104)	(96,104)
At 31 December 2002		440,870	(233,543)	207,327

Notes:

- (i) The share premium account of the Company includes a share premium arising from the share exchange upon the reorganisation at the time of the listing of the Company's shares, of approximately HK\$132,990,000, which represents the difference between the nominal value of the shares of the Company issued in exchange for the entire issued share capital of Eastern Gold Holdings Limited and the value of the underlying net assets of the subsidiaries at the date they were acquired by the Company on 11 September 1998. Under the Companies Law (2000 Revision) 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 in a position to pay off its debts as they fall due in the ordinary course of business.
- (ii) The relevant PRC laws and financial regulations require all PRC subsidiaries of the Group to transfer 10% of their profit after tax, prepared in accordance with PRC accounting standards, to the PRC statutory surplus reserve until the balance reaches 50% of the paid-up registered capital. Such reserve can be used to reduce any losses incurred and to increase capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.
- (iii) In accordance with the relevant PRC financial regulations and subject to approval by shareholders in general meetings, 20% of the profit after tax of the PRC subsidiaries of the Group, prepared in accordance with PRC accounting standards, is transferred to the discretionary surplus reserve which can be used to reduce any losses incurred, increase registered capital or to pay dividends.
- (iv) The Company's reserves available for distribution comprise the share premium account and accumulated losses. At 31 December 2002, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$207,327,000 (2001: HK\$264,145,000) subject to the restrictions stated in note 30(i) above.

Notes to Financial Statements

31 December 2002

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Major non-cash transactions**

- (i) During the year, the Company acquired a further approximately 45.702% equity interest in Fusion Tech from Southern Victory. A portion of the consideration was satisfied by the issue of the Consideration Shares of HK\$0.01 each in the capital of the Company. The Consideration Shares were issued on 23 October 2002 when the market price of the Company's shares was HK\$0.078 per share. Further details of the transaction are included in note 28(b) to the financial statements.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$513,000 (2001: Nil).
- (iii) During the year ended 31 December 2001, the Company acquired approximately 18.5% in NWCB from NWCN. The consideration was satisfied as to HK\$10 million by the issue of 100 million shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.10 per share and the balance by the issue of the Convertible Bond. For further details, please refer to note 27 to the financial statements.

Notes to Financial Statements

31 December 2002

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Acquisition of subsidiaries (Continued)**

On 2 January 2002, the Group acquired a 2.073% equity interest in Fusion Tech from Southern Victory for a cash consideration of HK\$3,000,000.

On 3 January 2002, Funcapital exercised all the Exchangeable Notes of HK\$75,560,000 for 100% of the issued share capital of Cyber Pilot, which thereafter became a wholly-owned subsidiary of the Company. Cyber Pilot owned an approximate 52% equity interest in Fusion Tech, which owned a 100% equity interest in Compass E-Commerce Limited, which in turn owned a 100% equity interest in Xinganxian. Since 3 January 2002, the Company has therefore owned an approximate 54% equity interest in Fusion Tech and its subsidiaries.

On 23 October 2002, the Company acquired a further approximate 45.702% equity interest in Fusion Tech from Southern Victory, as further detailed in note 28(b) to the financial statements. Goodwill of HK\$23,800,000 arose on this further acquisition and the increase in interests in subsidiaries did not form part of the acquisition of subsidiaries disclosed above.

As a result of the above acquisitions, the Group owned 100% equity interests in Cyber Pilot, Fusion Tech, Compass E-Commerce Limited and Xinganxian (note 16).

On 28 December 2002, the Group acquired 80% and 20% equity interests in 北京金干線運輸科技有限公司 from an independent third party and Mr. Zhao Rui (a director of the Company), respectively. The purchase consideration for the acquisition was in the form of cash, with RMB10,000 (approximately HK\$9,000) being payable when the PRC statutory documents are approved by the relevant authorities.

On 28 December 2002, the Group acquired a 100% equity interest in 北京金干線運輸有限公司 from two independent third parties. The purchase consideration for the acquisition was in the form of cash, with RMB10,000 (approximately HK\$9,000) being payable when the PRC statutory documents are approved by the relevant authorities.

Xinganxian, 北京金干線運輸科技有限公司 and 北京金干線運輸有限公司 are engaged in the fourth party logistics business in Mainland China.

Since their acquisitions, the subsidiaries contributed nil to the Group's turnover and HK\$775,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2002.

Notes to Financial Statements

31 December 2002

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)**(c) Acquisition of a business**

	Group	
	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	—	1,449
Goodwill on acquisition	—	18,175
Consideration	—	19,624
Satisfied by:		
Cash	—	9,808
Issue of shares of a subsidiary to a minority shareholder of that subsidiary	—	9,816
	—	19,624

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a business was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	9,808

In January 2001, an acquisition agreement and a transfer of business agreement (collectively the "Agreements") were entered into between, inter alia, Dr. Zhang Hou Qi ("Dr. Zhang") and Vision On-Line Limited ("Vision"), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company, pursuant to which Dr. Zhang agreed to procure that 北京漢普管理諮詢有限公司 ("Sinohelp"), a company established in the PRC which is approximately 68% owned by Dr. Zhang, transfer its business to 漢普管理諮詢(中國)有限公司 ("HAN China"), a company established in the PRC and a wholly-owned subsidiary of HAN International Consulting Company Limited ("HAN BVI"), a company incorporated in the British Virgin Islands and a non wholly-owned subsidiary of the Company in 2001.

The consideration under the Agreements was satisfied by a cash consideration of RMB10.5 million and the issuance of 49% of the share capital of HAN BVI to the then existing equity holders of Sinohelp, including Dr. Zhang. HAN BVI holds a 100% equity interest in HAN China.

The business contributed approximately HK\$58 million to the Group's turnover and a profit after tax and before minority interests of approximately HK\$3 million for the year ended 31 December 2001.

Notes to Financial Statements

31 December 2002

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)**(e) Disposal of subsidiaries**

	Group	
	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	—	51,986
Prepaid co-operation fee	—	8,436
Inventories	—	302
Tax recoverable	—	486
Prepayments, deposits and other receivables	—	1,244
Cash and bank balances	—	8,807
Trade payables	—	(207)
Tax payable	—	(1,561)
Other payable and accruals	—	(13,399)
Interest-bearing bank loans	—	(5,720)
PRC statutory surplus reserve	—	(7,189)
Discretionary surplus reserve	—	(14,378)
	—	28,807
Capital gains tax payable	—	1,727
Loss on disposal of discontinued operations	—	(534)
Consideration	—	30,000
Satisfied by:		
Cash consideration received	—	30,000

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Group	
	2002 HK\$'000	2001 HK\$'000
Cash consideration:		
Disposal of subsidiaries	—	30,000
Cash and bank balances disposed of	—	(8,807)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	21,193

The subsidiaries disposed of during the year ended 31 December 2001 made no significant contribution to the Group in respect of the turnover or net loss attributable to shareholders for the year ended 31 December 2001.

Notes to Financial Statements

31 December 2002

32. COMMITMENTS**(a) Capital commitments**

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted, but not provided for: Capital contributions payable to a jointly-controlled entity	390	—

(b) Operating lease arrangements

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

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	664	6,933
In the second to fifth years, inclusive	120	6,600
	784	13,533

The Company had no commitments at the balance sheet date (2001: Nil).

Notes to Financial Statements

31 December 2002

33. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Rental of office equipment and motor vehicle from a related company controlled by a director of the Company	(a)	54	377
Acquisition of 2.073% equity interest of Fusion Tech, of which a director of the Company is also a director	(b)	3,000	—
Subscription and underwriting of rights shares issued by NWCB	(c)	44,184	—
Purchase of certain office equipment from a related company, of which a director of the Company is also a director	(d)	46	—
Rental and office administrative expenses paid to related companies, of which a director of the Company is also a director	(e)	1,900	—
Interest income in relation to a loan of HK\$40,000,000 advanced to a related company	(f)	1,066	—
Corporate advisory fee paid to a wholly-owned subsidiary of a company, of which a director of the Company is also a director	(g)	704	—
Interest and securities handling and scrip fees paid to a wholly-owned subsidiary of a company, of which a director of the Company is also a director	(h)	413	—
Interest paid for the Convertible Bond to NWCN, of which a director of the Company is also a director	(i)	1,179	—
Transfer of rental and utility deposits and certain fixed assets to a related company	(j)	1,215	—
Transfer of certain fixed assets from a related company	(k)	1,100	—

Notes to Financial Statements

31 December 2002

33. RELATED PARTY TRANSACTIONS (Continued)

- (a) The rental of office equipment and a motor vehicle from a related company were made on terms mutually agreed between the parties.
- (b) On 2 January 2002, the Group and Southern Victory entered into a share purchase agreement pursuant to which the Group agreed to purchase 2,073 shares of US\$1.00 each, representing 2.073% of the issued share capital of Fusion Tech, of which a director of the Company is also a director, for a cash consideration of HK\$3,000,000.
- (c) On 20 February 2002, the Company and Tai Fook Securities Company Limited ("Tai Fook Securities"), a securities dealer registered under the Securities Ordinance, entered into an underwriting agreement ("Underwriting Agreement") with NWCB, a company of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director and a substantial shareholder. Pursuant to the Underwriting Agreement, each of the Company and Tai Fook Securities agreed to underwrite aggregate rights shares of not less than 1,589,610,720 and not more than 1,673,960,720 (the "Underwritten Shares") issued by NWCB. The Company was entitled to an underwriting commission based on 2% of the subscription price of the Underwritten Shares of HK\$0.05 each. The rights issue of shares of NWCB was completed in April 2002, resulting in the Company subscribing for 352,043,000 NWCB shares and receiving 544,290,388 underwritten NWCB shares for a total consideration of approximately HK\$44,184,000 after the deduction of the underwriting commission received. Since then, the Company's interest in NWCB increased to approximately 27.5% and the interest in NWCB has been equity accounted for (note 18).
- (d) The purchase of certain office equipment from a related company was made on terms mutually agreed between the parties.
- (e) The amount was charged for the provision of office space and the sharing of office administrative expenses. The directors consider that rental expense was charged with reference to the then market rental and the administrative expenses were reimbursed on an actual cost incurred basis, taking into account the headcount and/or area occupied.
- (f) During the year, the Group advanced a loan of HK\$40,000,000 to Tai Fook Finance Company Limited ("Tai Fook Finance"), of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director. The loan was unsecured, bore interest at 3.5% to 4.5% per annum and was fully repaid in September 2002. The interest received from Tai Fook Finance for the year amounted to approximately HK\$1,066,000.
- (g) During the year, Tai Fook Capital Limited ("Tai Fook Capital"), a wholly-owned subsidiary of Tai Fook Securities Group Limited, of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director, provided certain corporate advisory services to the Group. The corporate advisory fee paid amounted to approximately of HK\$704,000 and was charged in accordance with terms mutually agreed between the parties.

Notes to Financial Statements

31 December 2002

33. RELATED PARTY TRANSACTIONS (Continued)

- (h) During the year, the Group paid interest and securities handling and scrip fees of approximately HK\$413,000 to Tai Fook Securities, a wholly-owned subsidiary of Tai Fook Securities Group Limited of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director. The interest and fees were charged in accordance with terms mutually agreed between the parties.
- (i) During the year, the Company paid interest of approximately HK\$1,179,000 to NWCN, the Convertible Bond holder, of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director of NWCN. The interest was charged at 3% per annum and was payable semi-annually in arrears. For further details of the Convertible Bond, please refer to note 27 to the financial statements.
- (j) During the year, the Group transferred certain rental and utility deposits of approximately HK\$545,000 in relation to an office premises located in the PRC to HAN China, a then subsidiary of the Company which subsequently became an associate of the Company during the year, and disposed of certain computer and office equipment with a net book value of approximately HK\$670,000 to HAN China at nil consideration.
- (k) In April 2002, HAN BVI transferred certain office equipment with a net book value of approximately HK\$1.1 million to the Company at HK\$1 according to the subscription agreement of shares of HAN BVI entered on 21 March 2002.

In addition, the Group entered into various other transactions with related parties during the year ended 31 December 2002 as follows:

- (1) On 8 January 2002, Asia Logistics Management Services Limited ("ALM"), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, entered into a loan agreement with Xinganxian, before Xinganxian became a wholly-owned subsidiary of the Company, pursuant to which ALM arranged a banking facility of up to HK\$7,490,000 granted by a bank operating in Mainland China to Xinganxian by way of a standby letter of credit facility. ALM deposited a sum of up to HK\$7,490,000 with a bank determined by ALM from time to time as security for the loan facility.
- (2) On 21 January 2002, Vision agreed to subscribe for convertible notes of HK\$9,260,000 issued by HAN BVI, a then subsidiary of the Company which subsequently became an associate of the Company during the year. These notes were convertible, at the option of Vision, into 141 new ordinary shares of US\$1 each in the share capital of HAN BVI. HAN BVI paid interest of approximately HK\$100,000 to Vision in relation to the convertible notes during the year. On 17 April 2002, these notes were exercised and converted into 141 new ordinary shares of HAN BVI. Goodwill of HK\$2,730,000 arose on this transaction.

Notes to Financial Statements

31 December 2002

33. RELATED PARTY TRANSACTIONS *(Continued)*

- (3) On 30 November 2001, the Company entered into a loan agreement with HAN BVI pursuant to which, the Company granted to HAN BVI a loan of RMB10 million. The loan from the Company was interest-bearing at 1% over the Hong Kong prime lending rate per annum. The loan was fully repaid in April 2002 and the interest paid by HAN BVI to the Company was approximately HK\$164,000 during the year.

Further details of the transactions are also included in the section headed "Connected transactions" points (1) to (3) in the Report of the Directors on pages 20 and 21.

34. COMPARATIVE AMOUNTS

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

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.