

Notes to Financial Statements

31 December 2002

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding.

During the year, the Group invested in certain strategic companies for provision of online services and made strategic investments in certain information technology projects.

The principal activities of the Company's subsidiaries comprise the provision of Internet products and services, the provision of telecommunication products and services and investment holding.

As at 31 December 2002, the directors considered that the ultimate holding company of the Company is Sky Concord Development Limited, a company incorporated in the British Virgin Islands ("BVI").

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 34	Employee Benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The adoption of the Revised Standards has had no material impact on the financial statements of the current year and the prior year. The effects on the Group's accounting policies and on the disclosures in these financial statements by adopting these SSAPs are summarized as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirement for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognized gains and losses that was previously required.

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

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

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

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for employee benefits, except that additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which are now included in the notes to the financial statements as a consequence of the adoption of this new SSAP.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They are prepared under the historical cost convention, except for the periodic remeasurement of investments in securities, as further explained below.

Basis of consolidation

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

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

Subsidiaries

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

The 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.

Associates

An associate is a company, not being a subsidiary nor a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset and amortized on the straight-line basis over its estimated useful life of three years. In the case of associates, any unamortized goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortized.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognized 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.

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

A previously recognized 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/amortization), had no impairment loss been recognized for the asset in prior years.

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

Fixed assets and depreciation

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

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

Leasehold land and buildings	5% or over the lease terms, whichever is shorter
Leasehold improvements	20% or over the lease terms, whichever is shorter
Computer equipment and software	50%
Furniture and fixtures	20%
Machinery, tools and equipment	20%
Motor vehicles and vessels	25%

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

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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 capitalized 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 capitalized 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 produce a constant periodic rate of charge over the lease terms.

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.

Investments in securities

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

When impairments in values have occurred, the carrying amounts of the investment securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged are credited to the profit and loss account to the extent of the amount previously charged.

Other investments are listed equity securities and are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the periods in which they arise.

Provisions

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

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditure 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.

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognized 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 sales of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of telecommunication services, when the relevant services are provided;
- (c) from the rendering of after sales services, when the services are provided;
- (d) Internet advertising revenue, on a pro rata basis over the period in which the advertisements are displayed on the website operated by the Group, provided that no significant obligations remain and collection of the resulting receivable is reasonably assured;
- (e) commission income, when the relevant services are rendered; and
- (f) interest income, on a time proportion basis, taking into account the principal outstanding and effective interest rate applicable.

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

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

Foreign currencies translation

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 29(d) to the financial statements.

Cash and cash equivalents

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

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

Employee benefits

(a) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Employee benefits *(continued)*

(b) Share option scheme

The Company operates a share option scheme for the purpose of providing incentive 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 sheets 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.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) Online operations segment refers to the provision of internet services. This segment includes the results, assets and liabilities of two companies which had been acquired in 2001 and become dormant during the year;
- (b) Offline operations segment refers to the provision of telecommunication services and products. This segment had been established in last year and commenced operations in September 2001; and
- (c) Investment holding segment refers to the investments in securities.

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

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

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

	Online operations		Offline operations		Investment holding		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:								
Sales to external customers	<u>-</u>	<u>277</u>	<u>16,649</u>	<u>17,335</u>	<u>-</u>	<u>-</u>	<u>16,649</u>	<u>17,612</u>
Segment results	<u>(4,133)</u>	<u>(94,922)</u>	<u>(11,934)</u>	<u>(780)</u>	<u>(64,955)</u>	<u>1,619</u>	<u>(81,022)</u>	<u>(94,083)</u>
Interest and unallocated gains							<u>98</u>	<u>11,791</u>
Unallocated expenses							<u>(7,110)</u>	<u>(727)</u>
Loss from operating activities							<u>(88,034)</u>	<u>(83,019)</u>
Finance costs:								
Segment finance costs	<u>-</u>	<u>(1,696)</u>	<u>-</u>	<u>-</u>	<u>(1,299)</u>	<u>-</u>	<u>(1,299)</u>	<u>(1,696)</u>
Unallocated amounts							<u>-</u>	<u>(115)</u>
							<u>(1,299)</u>	<u>(1,811)</u>
Share of profits less losses of associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss before tax							<u>(89,333)</u>	<u>(84,830)</u>
Tax							<u>-</u>	<u>-</u>
Loss before minority interests							<u>(89,333)</u>	<u>(84,830)</u>
Minority interests							<u>-</u>	<u>5</u>
Net loss attributable to shareholders							<u>(89,333)</u>	<u>(84,825)</u>

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Online operations		Offline operations		Investment holding		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	9,405	44,510	29,054	3,365	65,263	34,946	103,722	82,821
Bank balances included in segment assets	-	-	79	154	2,185	-	2,264	154
Unallocated assets							3,452	5,363
TOTAL ASSETS							109,438	88,338
Segment liabilities	(10)	(16,583)	(3,530)	(3,294)	(16,127)	-	(19,667)	(19,877)
Unallocated liabilities							(227)	(12,710)
TOTAL LIABILITIES							(19,894)	(32,587)
Other segment information:								
Impairment losses of interests in associates	-	15,303	-	-	-	-	-	15,303
Depreciation and amortisation	5,443	14,640	9,360	76	24,934	-	39,737	14,716
Unallocated depreciation and amortisation							457	-
Website development costs	-	6,835	-	-	-	-	-	6,835
Other non-cash expenses	-	-	-	-	-	4,541	-	4,541
Capital expenditure	-	49,413	36,117	689	71,547	-	107,664	50,102

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4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

	Hong Kong		Elsewhere in the PRC		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	<u>3,099</u>	<u>17,612</u>	<u>13,550</u>	<u>—</u>	<u>16,649</u>	<u>17,612</u>
Segment results*	<u>(56,499)</u>	<u>(88,694)</u>	<u>(25,822)</u>	<u>(7,085)</u>	<u>(82,321)</u>	<u>(95,779)</u>

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other segment information:						
Segment assets	<u>65,480</u>	<u>78,588</u>	<u>43,958</u>	<u>9,750</u>	<u>109,438</u>	<u>88,338</u>
Capital expenditure	<u>46,664</u>	<u>30,102</u>	<u>61,000</u>	<u>20,000</u>	<u>107,664</u>	<u>50,102</u>

* Disclose pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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5. DISCONTINUED OPERATIONS

On 2 January 2001, the Group discontinued its business of the servicing of motor vehicles following the disposal of its entire 100% equity interest in a subsidiary, Ankor Service Limited (“ASL”), to an independent third party for a consideration of HK\$20. The effective date of discontinuance of the Group’s business of the servicing of motor vehicles for accounting purposes was 2 January 2001.

With the termination of all the car distribution agreements of the Group on 31 December 2000 and the disposal of ASL, Ankor Investments Limited (“AIL”) and its subsidiaries, which operated the Group’s motor vehicles business, became dormant. On 23 January 2001, the Group disposed of its entire 100% equity interest in AIL to another independent third party for a consideration of HK\$10,000.

ASL and AIL were consolidated by the Group until the date of their disposals in 2001, at which time the assets and liabilities of ASL and AIL were transferred to the gain on disposal of the discontinued operations, which was as follows:

	2002 HK\$’000	2001 HK\$’000
Proceeds received from the disposals of ASL and AIL	–	10
<i>Less:</i> Net liabilities of ASL and AIL disposed of	–	7,211
Waived amounts due to ASL and AIL	–	3,184
Gain on disposal of subsidiaries	–	10,405

Due to the disposals of ASL and AIL, the turnover and the loss from operating activities in respect of the Group’s motor vehicles related business for the year 2001 are classified and disclosed under discontinued operations.

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6. TURNOVER AND INCOME

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

An analysis of the Group's turnover and other income is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Sale of telecommunication products	13,550	16,917
Rendering of telecommunication services	3,099	418
Internet advertising income	–	277
	<hr/> 16,649 <hr/>	<hr/> 17,612 <hr/>
Other income/gains		
Gain on disposal of investments	–	3,186
Gain on disposal of fixed assets	–	768
Interest income	98	1,386
Gain on disposal of subsidiaries	4,890	–
Write back of accounts payable	3,456	–
Exchange gains, net	–	26
Others	589	–
	<hr/> 9,033 <hr/>	<hr/> 5,366 <hr/>
Total income	<hr/> 25,682 <hr/>	<hr/> 22,978 <hr/>

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7. LOSS FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Cost of inventories sold and services provided	<i>(i)</i>	15,789	30,499
Depreciation		3,670	12,675
Amortization of goodwill		36,524	2,041
Provision for impairment of interest in associates		–	15,303
Loss/(gain) on disposal of fixed assets		4,396	(768)
Website development costs		–	6,835
Unrealized holding loss on investments in securities		3,780	4,541
Loss on disposal of trading securities		23,323	–
Minimum lease payments under operating lease in respect of land and buildings		1,100	2,040
Provision for doubtful debts		61	–
Preliminary expenses		33	–
Auditors' remuneration		300	850
Staff costs, including directors' emoluments:			
Wages and salaries		8,854	22,145
Pension contributions	<i>(ii)</i>	195	340
		9,049	22,485
Exchange losses/(gains), net		26	(26)

The amortization of goodwill for the year, the provision for impairment of interest in associates, the loss on disposal of fixed assets, the website development costs, the unrealized holding loss on investments in securities, the loss on disposal of trading securities and the preliminary expenses are included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes:

- (i) The cost of inventories sold and services provided for the year ended 31 December 2002 had not included any depreciation amount but for the year ended 31 December 2001 HK\$12,212,000 relating to depreciation was included, and this amount is also included in the amount of depreciation disclosed separately above.
- (ii) At 31 December 2001 and 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

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8. DIRECTORS' REMUNERATION

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

	2002	Group
	HK\$'000	2001
		HK\$'000
Executive directors:		
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,111	5,250
Pension scheme contributions	41	26
Compensation for loss of office	–	550
	<u>3,152</u>	<u>5,826</u>

There were no emoluments paid or payable to the non-executive directors (2001: the non-executive directors and the independent non-executive directors) of the Company during the year.

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	7	12
HK\$1,000,001 to HK\$1,500,000	1	3
	<u>8</u>	<u>15</u>

There was no arrangement under which a director has waived or agreed to waive any emoluments during the current and prior years.

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

During the year, no share options were granted to directors in respect of their services rendered to the Group. 680,000,000 share options were granted to certain directors in respect of their services rendered to the Group in 2001, the detailed movements of which during the year are set out under the heading "Share option scheme" in the Report of the Directors.

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 these share options. Accordingly, no estimated value of such options has been charged to the profit and loss account as at the date of the grant.

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9. FIVE HIGHEST PAID EMPLOYEES

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

	2002	Group
	HK\$'000	2001
		HK\$'000
Salaries, allowances and benefits in kind	803	2,081
Pension scheme contributions	24	10
Compensation for loss of office	–	378
	<u>827</u>	<u>2,469</u>

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

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	–	2
	<u>2</u>	<u>2</u>

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the non-director, highest paid employees abovementioned as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

10. FINANCE COSTS

	2002	Group
	HK\$'000	2001
		HK\$'000
Interest expenses on:		
Convertible notes	–	58
Convertible bonds	–	57
Finance leases	1,005	1,696
Other borrowings	294	–
	<u>1,299</u>	<u>1,811</u>

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11. TAXATION

No Hong Kong profits tax has been provided for as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The principal components of the Group's deferred tax liabilities/(assets) provided for and not provided for/(recognized) at the balance sheet date are as follows:

	Provided		Not provided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax losses carried forward	—	—	(1,765)	(128)

12. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$698,000 (2001: (HK\$104,813,000)).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$89,333,000 (2001: HK\$84,825,000), and the weighted average of 423,123,981 (2001: 34,561,453) ordinary shares in issue during the year, as adjusted to reflect the share consolidations and the right issue effected during the year and after the balance sheet date (note 32). Accordingly, the comparative figure has been adjusted to reflect such share consolidations and the rights issue retrospectively.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been disclosed as the share options, bonus warrants and the convertible bonds and notes outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

Notes to Financial Statements

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14. FIXED ASSETS

Group

	Long term leasehold land and buildings outside Hong Kong <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Computer equipment and software <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles and vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At 1 January 2002	10,000	329	21,731	334	498	32,892
Additions	–	–	117	–	897	1,014
Disposals	(10,000)	–	–	–	(842)	(10,842)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(842)</u>	<u>(10,842)</u>
At 31 December 2002	<u>–</u>	<u>329</u>	<u>21,848</u>	<u>334</u>	<u>553</u>	<u>23,064</u>
Accumulated depreciation:						
At 1 January 2002	250	329	18,582	82	19	19,262
Charge for the year	417	–	2,963	65	225	3,670
Disposals	(667)	–	–	–	(101)	(768)
	<u>(667)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(101)</u>	<u>(768)</u>
At 31 December 2002	<u>–</u>	<u>329</u>	<u>21,545</u>	<u>147</u>	<u>143</u>	<u>22,164</u>
Net book value:						
At 31 December 2002	<u>–</u>	<u>–</u>	<u>303</u>	<u>187</u>	<u>410</u>	<u>900</u>
At 31 December 2001	<u>9,750</u>	<u>–</u>	<u>3,149</u>	<u>252</u>	<u>479</u>	<u>13,630</u>

The Group acquired the leasehold land and buildings, through acquisition of certain subsidiaries in last year.

The Group's leasehold land and buildings were valued by Castores Magi Surveyors Limited ("Castores"), a firm of independent professional valuers, on the open market value existing state basis, at an aggregate value of approximately HK\$10 million as at 31 May 2001, the effective date of acquisition of the subsidiaries.

At 31 December 2002, no Group's fixed assets were held under finance leases (2001: The net book value of the Group's fixed assets held under finance leases included in the computer equipment and software amounted to HK\$2,975,000).

Notes to Financial Statements

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15. GOODWILL

The amounts of the Group's goodwill capitalized as an asset and recognized in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<i>HK\$'000</i>
Cost:	
At 1 January 2002	20,328
Addition during the year	<u>105,792</u>
At 31 December 2002	<u>126,120</u>
Accumulated amortization:	
At 1 January 2002	2,041
Amortization during the year	<u>36,524</u>
At 31 December 2002	<u>38,565</u>
Net book value:	
At 31 December 2002	<u><u>87,555</u></u>
At 31 December 2001	<u><u>18,287</u></u>

During the year, the Group acquired certain subsidiaries of which the principal activities are investment holding. Further details of the acquisitions are set out in note 29(b) to the financial statements.

16. INTERESTS IN ASSOCIATES

	2002	Group
	<i>HK\$'000</i>	2001
		<i>HK\$'000</i>
Investment, at cost	3	–
Goodwill on acquisition	15,303	15,303
	<u>15,306</u>	15,303
<i>Less: Provision for impairment</i>	(15,303)	(15,303)
	<u>3</u>	<u>–</u>

During the year, the Group indirectly acquired 35% equity interest in Seven Perfect Investment Co., Ltd. ("SPI"), through the acquisition of two subsidiaries, Winning Luck International Ltd. and Magna Steels Co., Ltd.. The latter directly holds 35% equity interest in SPI.

The Group's share of the post-acquisition results of the associate has not equity accounted for the Group because the amounts are not significant.

Notes to Financial Statements

31 December 2002

16. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance are as follows:

Name	Place of incorporation and operations	Issued share capital	Percentage of equity attributable to the Group	Principal activities
Internet Marketing & Services Limited*	BVI	US\$100	40%	Investment holding
Marketing Online Limited*	Hong Kong	HK\$2,000,000	40%	Provision of news and financial data, publication and internet marketing services
Seven Perfect Investment Co., Ltd*	BVI	US\$1,000	35%	Investment holding

* Not audited by Albert Lam & Co., CPA.

17. INVESTMENTS IN SECURITIES

	2002 HK\$'000	Group 2001 HK\$'000
Investment securities:		
Unlisted in Hong Kong, at cost	200	10,000
Other investments:		
Listed in Hong Kong, at market value	1,134	36,031
Listed outside Hong Kong, at market value	—	202
	<u>1,134</u>	<u>36,233</u>
At 31 December	<u>1,334</u>	<u>46,233</u>
Carrying amount analyzed for reporting purposes as:		
Non-current	200	10,000
Current	<u>1,134</u>	<u>36,233</u>
	<u>1,334</u>	<u>46,233</u>

Notes to Financial Statements

31 December 2002

17. INVESTMENTS IN SECURITIES *(continued)*

Subsequent to the balance sheet date, the Group disposed of certain listed investments and received cash proceeds of approximately HK\$48,000. The market values of the remaining listed investments as at the date of approval of these financial statements are approximately HK\$495,000.

Particulars of the investments in securities disclosed pursuant to section 129 of the Hong Kong Companies Ordinance are as follows:

Name	Place of incorporation and operation	Issued share capital	Class of equity held	Percentage of equity attributable to the Group	Principal activities
Open Knowledge (Holdings) Limited	Hong Kong	HK\$200,000	Ordinary shares	35%	On-line games developing

18. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	3	4
Amounts due from subsidiaries	470,818	153,977
	470,821	153,981
Provision against amounts due from subsidiaries	(300,821)	(103,981)
	170,000	50,000

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

Particulars of the Company's principal subsidiaries are set out on pages 65 to 68 in this annual report.

Notes to Financial Statements

31 December 2002

19. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 60 days to its trade customers.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	168	1,090
31-60 days	182	225
61-90 days	159	–
Over 90 days	166	–
	<u>675</u>	<u>1,315</u>

20. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	2,397	5,502	1,739	277
Time deposits	598	1,440	17	666
	<u>2,995</u>	<u>6,942</u>	<u>1,756</u>	<u>943</u>
Less: Pledged time deposits	(581)	(774)	–	–
Cash and cash equivalents	<u>2,414</u>	<u>6,168</u>	<u>1,756</u>	<u>943</u>

21. TRADE PAYABLES

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	182	372
31-60 days	147	31
61-90 days	99	9
Over 90 days	270	–
	<u>698</u>	<u>412</u>

Notes to Financial Statements

31 December 2002

22. PROVISION FOR EXTENDED WARRANTY AND FREE SERVICE

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At 1 January	–	10,247
Disposal of subsidiaries	–	(10,247)
	<hr/>	<hr/>
At 31 December	<hr/> <hr/>	<hr/> <hr/>

As further detailed in note 5 to the financial statements, the Group disposed of certain subsidiaries in 2001, the principal activities of which was motor vehicles related business. The motor vehicle related business was accounted for until the date of disposal, at which time the assets and liabilities of the motor vehicle related business were transferred to the gain on disposal of discontinued operations.

In prior years, in addition to the normal manufacturers' warranty, the Group provided a package comprising free after sales service and an extension of the manufacturers' warranty up to a period of three years from the date of sale of a new motor vehicle. Provision was made, in the year the new vehicle was sold, for the expected future revenue associated with providing the package and actual internal service costs were matched against the provision as incurred. The level of provision required was assessed by the directors annually and adjustment made if necessary.

23. SHORT TERM LOANS

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loan from major shareholder	50	–	50	–
Loans from third parties	2,250	–	2,000	–
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Loan from third parties to the extent of HK\$2,000,000 are charged at interest of 1.2% per month and the remaining balances of loans are interest-free. All these short term loans are unsecured and repayable within one year.

Notes to Financial Statements

31 December 2002

24. PROMISSORY NOTES

Promissory notes (the "P Notes") with principal amount of HK\$9,000,000 in aggregate were issued by the Company in November 2002 in favor of an independent third party as the consideration for the acquisition of 100% equity interest in a subsidiary (Note 29(e)). The P Notes bear interest at 3% per annum and are payable on 31 October 2003. During the year HK\$2,000,000 had been repaid from the Company and the remaining principal amount as at 31 December 2002 was HK\$7,000,000.

25. CONVERTIBLE BONDS AND NOTES PAYABLE

Convertible bonds payable

Convertible bonds (the "Bonds") in the principal amount of HK\$12,000,000 were issued by the Company in July 2001 in favor of more than six independent third parties pursuant to a bond placement agreement dated 23 July 2001. The Bonds were repayable on 22 July 2002 and interest bearing at 2.5% per annum. During the year ended 31 December 2001, an amount of HK\$7,440,000 of the Bonds had been converted into conversion shares.

During the year ended 31 December 2002, an amount of HK\$4,560,000 of the Bonds had been converted into 86,037,730 conversion shares (Note 27 (iv)).

Convertible notes payable

Convertible notes (the "Notes") in the principal amount of HK\$7,590,000 were issued by the Company in September 2001 in favor of two independent third parties as partial consideration for the acquisition of 40% equity interest in associates. The Notes were repayable on 8 October 2002 and interest bearing at 2.5% per annum.

During the year ended 31 December 2002, convertible notes with an amount of HK\$3,036,000 had been redeemed in cash and the remaining of HK\$4,554,000 had been converted into 3,643,200 conversion shares (Note 27 (vi)).

Notes to Financial Statements

31 December 2002

26. FINANCE LEASE PAYABLES

The Group leases certain of its computer equipment for its internet and telecommunication services businesses. These leases are classified as finance leases and have one year remaining lease terms. Pursuant to the leases, the Group has been granted purchase options to purchase all the leased assets at HK\$400 at the end of the leases term.

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	4,890	10,473	4,842	9,361
In the second year	—	1,053	—	1,005
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	4,890	11,526	4,842	10,366
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	(48)	(1,160)		
	<hr/>	<hr/>		
Total net finance lease payables	4,842	10,366		
	<hr/>	<hr/>		
Portion classified as current liabilities	(4,842)	(9,361)		
	<hr/>	<hr/>		
Non-current portion	—	1,005		
	<hr/>	<hr/>		

Notes to Financial Statements

31 December 2002

27. SHARE CAPITAL

The following is a summary of movements in the authorized and issued share capital of the Company:

Shares

	<i>Notes</i>	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK'000
Authorized:			
At 31 December 2001 and 2002		<u>30,000,000,000</u>	<u>300,000</u>
Issued and fully paid:			
At 1 January 2002		10,030,150,989	100,302
Share consolidation (25 into 2)	<i>(i)</i>	(9,227,738,911)	(92,277)
New issue of shares by way of rights issue	<i>(ii)</i>	6,820,502,663	68,205
Exercise of warrants	<i>(iii)</i>	10,280,065	103
Conversion of convertible bonds	<i>(iv)</i>	86,037,730	860
Share consolidation (25 into 1)	<i>(v)</i>	(7,410,461,929)	(74,105)
Conversion of convertible notes	<i>(vi)</i>	3,643,200	36
New issue of shares by way of placing	<i>(vii)</i>	150,000,000	1,500
New issue of shares subscribed by the controlling shareholder	<i>(viii)</i>	<u>157,586,193</u>	<u>1,576</u>
At 31 December 2002		<u>620,000,000</u>	<u>6,200</u>

The following changes in the Company's issued share capital took place during the year:

- (i) On 5 February 2002, the then existing shares 10,030,150,989 shares were reduced to 802,412,078 shares arising from Capital Reduction in the proportion of every 25 shares consolidated into 2 shares.
- (ii) On 5 March 2002, the Company issued 6,820,502,663 shares by rights issue in the proportion of 17 shares for every 2 shares at a subscription price HK\$0.016 per share for the acquisition of two subsidiaries: Grandmax International Ltd. and Magna Steels Co., Ltd..
- (iii) A bonus issue of warrants was made on the basis of 1 warrant for every 5 right shares (as mentioned in (ii) above). Each warrant carries an entitlement to subscribe in cash at a price of HK\$0.01 (HK\$0.25 after the share consolidation as mentioned in (v) below) for 1 ordinary share of the Company, at anytime from 7 March 2002 to 11 March 2003. During the year, the registered holders of 10,280,065 warrants exercised their rights to subscribe for ordinary shares. At the balance sheet date, the Company had outstanding 54,151,513 warrants. Exercise in full of such warrants would result in the issue of 54,151,513 additional shares of HK\$0.01.

Notes to Financial Statements

31 December 2002

27. SHARE CAPITAL *(continued)*

Shares *(continued)*

- (iv) On 27 August 2002, an aggregate amount of HK\$4,560,000 of convertible bonds were converted into 86,037,730 conversion shares pursuant to the conversion terms and conditions of the bonds.
- (v) On 30 August 2002, the then existing 7,719,231,176 shares were reduced to 308,769,247 shares arising from Capital Reduction in the proportion of every 25 shares consolidated into 1 share.
- (vi) On 15 October 2002, an aggregate amount of HK\$4,554,000 of convertible notes were converted into 3,643,200 conversion shares pursuant to the conversion terms and conditions of the notes.
- (vii) Pursuant to a Placing Agreement entered into on 6 November 2002, the Company placed 150,000,000 new shares to more than six independent investors at a price of HK\$0.031 per share. The Company had issued 150,000,000 new shares on 23 December 2002.
- (viii) Pursuant to a Subscription Agreement entered into on 6 November 2002, the controlling shareholder, Rich Delta Development Limited, has agreed to subscribe 157,586,193 new shares at a price of HK\$0.031 per share. The Company had issued 157,586,193 new shares on 23 December 2002.

Shares issued during the year rank pari passu in all respects with shares in issue at that time.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

On 26 June 2000, the Scheme was approved pursuant to a written resolution of the Company. The purpose of the Scheme is to enable the Group to grant options to employees as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee of the Company or its subsidiaries, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes by the Company must not exceed 10% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option.

The subscription price for shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will be the greater of: (i) the nominal value of the share and (ii) an amount not less than 80 per cent of the average closing price of the shares as stated in the daily quotations immediately preceding the date on which the offer to grant an option is made to an employee.

Notes to Financial Statements

31 December 2002

27. SHARE CAPITAL *(continued)*

Share options *(continued)*

The maximum number of share in respect of which an option may be granted under the Scheme will not, when aggregated with any shares subject to any other share option schemes of the Company, exceed 10 per cent of the issued share capital of the Company from time to time.

At the beginning of the year, there were 746,000,000 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during the periods ranging from 23 July 2001 to 25 June 2010. The subscription price per share payable upon the exercise of these options is HK\$0.016.

During the year, 503,000,000 shares options were cancelled and 242,222,400 shares options were reduced to reflect the effect of share consolidation during the year. Subsequently, the subscription price per share payable upon the exercise of these options is adjusted to HK\$4.05 to reflect the effect of share consolidation and rights issue during the year. No share options were granted or exercised during the year.

At the balance sheet date, the Company had 777,600 share options outstanding under the Scheme, with an exercise period from 23 July 2001 to 25 June 2010 and an exercise price of HK\$4.05. The exercise in full of the remaining share options would, under the capital structure of the Company as at 31 December 2002, result in the issue of 777,600 additional shares of HK\$0.01 each and proceeds of approximately HK\$3,149,000.

The Scheme remains in force for a period of 10 years with effect from 26 June 2000.

Notes to Financial Statements

31 December 2002

28. RESERVES/(DEFICIT)

Group

	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	429,870	(437,001)	(7,131)
Issue of shares	50,567	–	50,567
Issue expenses	(3,162)	–	(3,162)
Loss for the year	–	(84,825)	(84,825)
	<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002	477,275	(521,826)	(44,551)
Cancelled paid-up ordinary share capital	–	166,382	166,382
Issue of shares	55,601	–	55,601
Issue expenses	(4,755)	–	(4,755)
Loss for the year	–	(89,333)	(89,333)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>528,121</u>	<u>(444,777)</u>	<u>83,344</u>

At 31 December 2002 and 2001, all the reserves/(deficit) were retained by the Company and its subsidiaries and none (2001: None) of such reserves/(deficit) was retained by associates.

Notes to Financial Statements

31 December 2002

28. RESERVES/(DEFICIT) (continued)

Company

	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	429,870	(434,532)	(4,662)
Issue of shares	50,567	–	50,567
Issue expenses	(3,162)	–	(3,162)
Loss for the year	–	(104,813)	(104,813)
	<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002	477,275	(539,345)	(62,070)
Cancelled paid-up ordinary share capital	–	166,382	166,382
Issue of shares	55,601	–	55,601
Issue expenses	(4,755)	–	(4,755)
Profit for the year	–	698	698
	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>528,121</u>	<u>(372,265)</u>	<u>155,856</u>

Notes to Financial Statements

31 December 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss from operating activities	(88,034)	(83,019)
Interest income	(98)	(1,386)
Websites development costs	–	6,835
Amortization of goodwill	36,524	2,041
Provision for impairment of interests in associates	–	15,303
Depreciation of fixed assets	3,670	12,675
Loss/(gain) on disposal of fixed assets	4,396	(768)
Gain on disposal of subsidiaries	(4,890)	(10,405)
Unrealised holding loss on investments in securities	3,780	–
Loss on disposal of trading securities	23,323	–
	<hr/>	<hr/>
Operating loss before working capital changes	(21,329)	(58,724)
Decrease/(increase) in trade receivables	640	(6,013)
(Increase)/decrease in deposits, prepayments and other receivables	(14,178)	7,606
Increase in trade payables	286	7,387
Decrease in other payables and accruals	(4,467)	(6,787)
	<hr/>	<hr/>
Cash outflow from operations	(39,048)	(56,531)
Interest paid	(294)	(115)
Interest element on finance lease rental payments	(1,005)	(1,696)
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(40,347)</u>	<u>(58,342)</u>

Notes to Financial Statements

31 December 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries

	2002 HK\$'000	2001 <i>HK\$'000</i>
Net assets acquired:		
Leasehold land and buildings	–	10,000
Investment in associates	3	–
Other receivables	1,554	–
Investment securities	200	–
Other payables and accruals	(899)	(1,328)
Loan from the former shareholders	–	(6,976)
	<u>858</u>	<u>1,696</u>
Goodwill arising from acquisition	<u>105,792</u>	<u>20,328</u>
	<u>106,650</u>	<u>22,024</u>
Satisfied by:		
Cash	97,650	29,000
Promissory notes	9,000	–
Assignment of a loan from the former shareholder	–	(6,976)
	<u>106,650</u>	<u>22,024</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Cash consideration and net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>97,650</u>	<u>29,000</u>

Notes to Financial Statements

31 December 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries *(continued)*

During the year, the following significant acquisitions took place:

Acquiree	Place of incorporation	Principal activities	Percentage of voting shares acquired	Cost of acquisition <i>HK\$'000</i>	Effective date of acquisition
Grandmax International Ltd.	BVI	Investment holding	100%	36,000	5 March 2002
Magna Steels Co., Ltd.	BVI	Investment holding	100%	54,000	5 March 2002
Nice Friendship Ltd.	Hong Kong	Inactive	100%	650	21 March 2002
Sky Easy Ltd.	BVI	Investment holding	100%	7,000	12 April 2002
Union Key Ltd.	BVI	Investment holding	100%	9,000	5 November 2002

Notes:

- (i) The subsidiaries acquired during the year ended 31 December 2002 had no contribution to the Group's net operating activities cash flow and did not contribute to investing activities and financing activities.
- (ii) The investment in Nice Friendship Ltd. has also been disposed of during the year ended 31 December 2002, resulting in a loss of investment in subsidiaries of HK\$650,000.

Notes to Financial Statements

31 December 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

	2002 HK\$'000	2001 <i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	–	2,327
Investments in securities	10,000	–
Inventories	–	2,846
Deposits, prepayments and other receivables	1,687	6,284
Cash and bank balances	–	3,155
Other payables and accruals	(1,037)	(11,576)
Provision for extended warranty and free services	–	(10,247)
	10,650	(7,211)
Gain on disposal of subsidiaries	4,890	10,405
	15,540	3,194
Satisfied by:		
Cash	19,540	10
Waived amounts due (from)/to disposed subsidiaries	(4,000)	3,184
	15,540	3,194

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Cash consideration	19,540	10
Cash and bank balances disposed of	–	(3,155)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	19,540	(3,145)

The subsidiaries disposed of during the year ended 31 December 2002 had no significant impact to the Group's net operating activities cash flow and did not contribute to investing activities and financing activities.

Notes to Financial Statements

31 December 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

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

SSAP 15 (Revised) was adopted at beginning of year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flow from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxation. The significant reclassifications resulting from the change in presentation are that taxes and dividends paid are now included in cash flows from operating activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout. The revisions to this SSAP have had no material effect on the amounts in financial statements.

(e) Major non-cash transactions

- (i) During the year, the Group acquired 100 % equity interest in a subsidiary at a consideration of HK\$9,000,000 which is to be settled by the issue of promissory notes of HK\$9,000,000.
- (ii) As further detailed in note 25 to the financial statements, amounts of HK\$4,560,000 and HK\$4,554,000 of convertible bonds and convertible notes respectively had been converted into conversion shares of the Company during the year.

30. CONTINGENT LIABILITIES

As at 31 December 2002, contingent liabilities not provided for in the financial statements were as follows:

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Guarantees of hire purchase financing facilities granted by a finance company to a subsidiary's customers	—	2,680
Guarantees given to securities dealers in connection with financing facilities granted to subsidiaries	15,000	10,000
	15,000	12,680

None of the above facilities was utilized as at 31 December 2002.

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31. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties and directors' quarters under operating lease arrangements for two years terms.

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

	2002	Group
	HK\$'000	2001
		HK\$'000
Within one year	1,055	918
In the second to fifth years, inclusive	229	721
	1,284	1,639

At 31 December 2002, the Company had no significant commitments (2001: Nil).

32. POST BALANCE SHEET EVENTS

- (a) Pursuant to ordinary resolutions passed on 7 April 2003, a rights issue of 620,000,554 shares at an issue price of HK\$0.018 per rights share on the basis of one rights share for every one existing share held by members on the register of members on 7 April 2003 (excluding those shareholders with registered addresses outside Hong Kong). The transaction was completed on 5 May 2003 and the proceeds of HK\$11,160,000 before expenses, were received by the Company.

Further details of the rights issue are set out in the prospectus of the Company dated 14 April 2003.

- (b) In March 2003, the Group has signed in a Tomlin Order with GE Capital (Hong Kong) Limited ("the lessor") in respect of the repayment of Group's obligation of finance leases owed to the lessor as at 31 December 2002. Pursuant to the Tomlin Order, the Group has to pay a sum of HK\$5,690,000 to the lessor by five installments, the latest of which is payable on or before 25 December 2003.
- (c) On 23 April 2003, a company ("the plaintiff") took legal proceedings against the Company for the failure to pay HK\$500,000 consultancy fee which is payable on 1 April 2003, pursuant to a Service Agreement dated 9 August 2002 entered into between the Company and the plaintiff, together with interest thereof and such further or other relief.

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33. RELATED PARTY TRANSACTIONS

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

- (i) A co-operation agreement was entered into between the Company and renren.com Holdings Limited, a related company in which certain directors of the Company have beneficial interests, under which renren.com Holdings Limited agreed to license its trade name of “renren.com” to the Group in return for a license fee equal to the higher of US\$100,000 (which had been reduced to US\$15,000 with effect from 1 May 2001) or 5% of the gross receipts arising from the use of the trade name for each calendar month; and to provide technical consultation services and second employees to the Group in return for consideration based on cost plus 5 per cent. The agreement had been cancelled during the year.

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Payments to renren.com Holdings Limited in respect of:		
License fee paid	585	4,056
Compensation paid for cancellation of agreement	3,315	—
Payment of technical consultation services	—	1,313
	<u>3,900</u>	<u>5,369</u>

- (ii) During the year, the Group acquired the entire issued share capital of Grandmax International Ltd. from Ms. So Siu Ngan, a former director of the Company and the spouse of Mr. Mak Chi Yeung, the chairman of the Group. The consideration for the acquisition was HK\$36,000,000 which represents a discount of approximately 7% to proportionate interest in a subsidiary (Wiseford Ltd.) held by Grandmax International Ltd. in accordance with an independent valuation of Wiseford Ltd.

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Acquisition of subsidiaries	<u>36,000</u>	<u>—</u>

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34. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of 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 and give more details about the Group's current business operations. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 9 May 2003.