

Notes to the Accounts

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that trading securities are stated at fair value as disclosed in Note 2(h)(ii).

In the current year, the Group adopted the revised Statement of Standard Accounting Practice Number 12 “Income Taxes” (“SSAP 12”) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The changes to the Group’s accounting policies and the effect of adopting the new policy are set out in Note 2 below.

2. Principal accounting policies

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

2. Principal accounting policies *(Continued)*

(b) Associated companies *(Continued)*

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising in these cases are dealt with as a movement in reserves.

Notes to the Accounts

2. Principal accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/associated company at the date of acquisition.

Goodwill on acquisition is included in intangible assets and is amortised using the straight-line method over its estimated useful life not more than 20 years.

Where an indication of impairment exists, the carrying amount of goodwill, including those previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of assets less accumulated impairment losses over their estimated useful life on a straight line basis at the following annual rates:

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

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2. Principal accounting policies *(Continued)*

(h) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet, the net unrealized gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises 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 determined on the basis of anticipated sales proceeds less any estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

Notes to the Accounts

2. Principal accounting policies (Continued)

(I) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

For employees in Hong Kong, a mandatory provident fund scheme (“MPF Scheme”) has been established pursuant to the Hong Kong Mandatory Provident Fund Scheme Ordinance under which the Group’s Hong Kong employees are compulsorily required to join the MPF Scheme. The Group, as employers, and the employees are each required to contribute 5% of each individual’s relevant income with a maximum amount of HK\$1,000 per month as a mandatory contribution. Employer’s mandatory contributions are 100% vested in the employees as soon as they are paid to the MPF Scheme.

Contributions made by the Group under the MPF Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the MPF Scheme are held separately from those of the Group and managed by independent professional fund managers.

For employees in the Mainland China, the Group contributes to retirement schemes managed by local municipal authorities in the Mainland China based on a percentage of the relevant employees’ monthly salaries. The Group’s contributions under such schemes are charged to the profit and loss account as incurred while the relevant local municipal authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group in the Mainland China.

(iii) Equity compensation benefits

Share options are granted to certain directors and employees under a share option scheme. 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 change 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 lapsed, are removed from the register of outstanding options.

2. Principal accounting policies *(Continued)*

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy; however, deferred taxation in prior year has not been restated as the effect of this change is not material to the accounts.

(n) Revenue recognition

Revenue from the provision of logistics technology services and logistics management services is recognised when services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

Notes to the Accounts

2. Principal accounting policies (Continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3. Turnover, revenue and segment information

The Group is principally engaged in the provision of consultancy services for logistics management together with the supply of related software, and provision of logistics management services. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Service income	8,030	18,511
Other revenue		
Interest income	454	2,182
Total revenue	8,484	20,693

Primary reporting format – business segments

The Group is organised into two main business segments:

- Logistics technology – provision of consultancy services for logistics management, together with the supply of related software
- Logistics management – provision of logistics management services

There are no sales or other transactions between the business segments.

3. Turnover, revenue and segment information (Continued)

Secondary reporting format – geographical segments

The Group's two business segments operate in two main geographical areas:

Hong Kong
Mainland China

There are no sales between the geographical segments.

Primary reporting format – business segments

Group

	Logistics technology		Logistics management		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	3,582	18,511	4,448	–	8,030	18,511
Segment results	(9,360)	(29,550)	(12,885)	(13,149)	(22,245)	(42,699)
Interest income					454	2,182
Impairment of goodwill	–	–	(94,523)	–	(94,523)	–
Provision for obsolete inventories	–	–	(7,611)	–	(7,611)	–
Unallocated income					12,223	–
Unallocated expenses					(6,445)	(32,701)
Operating loss					(118,147)	(73,218)
Finance costs					(1,171)	(1,565)
Share of losses of:						
– Jointly controlled entity					(262)	(128)
– Associated companies					(33,844)	(18,033)
Loss before taxation					(153,424)	(92,944)
Taxation					–	–
Loss before minority interests					(153,424)	(92,944)
Minority interests					–	3,550
Loss attributable to shareholders					(153,424)	(89,394)

Notes to the Accounts

3. Turnover, revenue and segment information (Continued)

Primary reporting format – business segments (Continued)

Group

	Logistics technology		Logistics management		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	6,253	6,822	6,488	115,929	12,741	122,751
Investments in associated companies	–	15,621	–	–	–	15,621
Unallocated amount					75,680	93,903
					75,680	109,524
Investment in a jointly controlled entity	–	262	–	–	–	262
Investment securities					1,520	1,520
Trading securities					26,368	–
Unallocated assets					24,904	67,871
Total assets					141,213	301,928
Segment liabilities	1,429	1,920	858	1,480	2,287	3,400
Unallocated liabilities					30,695	47,873
Total liabilities					32,982	51,273
Other information:						
Capital expenditure	708	1,302	306	567	1,014	1,869
Depreciation and amortisation	1,909	2,025	7,051	4,027	8,960	6,052
Loss on disposal of fixed assets	74	668	132	–	206	668
Write off of fixed assets	167	4,508	152	–	319	4,508
Provision for doubtful debts	–	1,104	–	–	–	1,104
Provision for other receivables	–	3,819	–	–	–	3,819
Provision for obsolete inventories	–	–	7,611	–	7,611	–
Impairment of goodwill	–	–	94,523	–	94,523	–

3. Turnover, revenue and segment information *(Continued)*

Secondary reporting format – geographical segments

Group

	Mainland China		Hong Kong		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment turnover:						
Sales to external customers	5,406	14,348	2,624	4,163	8,030	18,511
Other information:						
Segment assets	9,711	127,057	131,502	174,871	141,213	301,928
Capital expenditure	448	1,368	566	501	1,014	1,869

4. Operating loss

Operating loss is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Profit on disposal of trading securities	2,976	–
Unrealised gain on trading securities	6,244	–
Recovery of provision for other receivables	2,804	–
Charging		
Depreciation	2,040	2,102
Auditors' remuneration	546	970
Operating leases in respect of land and buildings	2,407	4,874
Staff costs, excluding directors' emoluments <i>(Note 6)</i>	14,656	23,414
Research and development costs	–	4,230
Amortisation of goodwill (including in other operating expenses)	6,920	3,950
Impairment of goodwill <i>(Note 11)</i>	94,523	–
Loss on disposal of fixed assets	206	668
Write off of fixed assets	319	4,508
Net exchange losses	19	6
Provision for impairment of investment securities	–	12,703
Provision for doubtful debts	–	1,104
Provision for other receivables	–	6,649
Provision for obsolete inventories (including in other operating expenses)	7,611	–

Notes to the Accounts

5. Finance costs

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans wholly repayable within one year	–	370
Interest on convertible bonds (Note 23)	1,154	1,179
Interest element of finance leases	12	16
Interest on other loan	5	–
	1,171	1,565

6. Staff costs (excluding directors' emoluments)

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries	14,496	23,134
Retirement benefits scheme contributions	160	280
	14,656	23,414

7. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	220	220
Other emoluments:		
Salaries, allowances and benefits in kind	3,335	3,268
Retirement benefits scheme contributions	36	37
	3,591	3,525

Directors' fees disclosed above include HK\$220,000 (2002: HK\$220,000) paid to the non-executive directors.

7. Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	8	9
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
	10	11

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

During the year, no share options were granted to the directors in respect of their services to the Group.

(b) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group for the year included two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,574	2,574
Retirement benefits scheme contributions	24	24
	2,598	2,598

Notes to the Accounts

7. Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals' emoluments (Continued)

The emoluments of the individuals fell within the following bands:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	1
	3	3

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

During the year, no share options were granted to non-directors in respect of their services to the Group. For the year ended 31 December 2002, 3,700,000 share options were granted to two of the non-directors who were also five highest paid individuals in respect of their services to the Group.

8. Taxation

No provision for Hong Kong profits tax and overseas taxation has been made because there is no estimated assessable profit for the Group.

9. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$123,649,000 (2002: HK\$96,104,000).

10. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$153,424,000 (2002: HK\$89,394,000) and the weighted average of 3,649,692,686 (2002: 3,342,852,413) ordinary shares in issue during the year.

The exercise of share options and convertible bonds would have an anti-dilutive effects on basic loss per share and accordingly no diluted loss per share for the year is presented.

11. Goodwill

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost		
At 1 January	105,075	18,175
Acquisition of subsidiaries	–	81,275
Acquisition of additional investments in subsidiaries	–	26,530
Deemed disposal of subsidiaries	–	(13,711)
Transfer of investments in associated companies	–	(7,194)
At 31 December	105,075	105,075
Accumulated amortisation		
At 1 January	3,632	771
Charge for the year	6,920	3,950
Deemed disposal of subsidiaries	–	(703)
Transfer of investments in associated companies	–	(386)
Impairment charge	94,523	–
At 31 December	105,075	3,632
Net book value		
At 31 December	–	101,443

The goodwill arose from the acquisition of the logistics management business in Mainland China. In the second half of 2003, the operating environment of this business has changed and brought an adverse effect to the operating results. As a result, the directors have undertaken a review of the situation and have concluded that a full provision for impairment of the goodwill should be made and the provision has been recognised in the consolidated profit and loss account.

Notes to the Accounts

12. Property, plant and equipment

(a) Group

	Leasehold improvements <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2003	118	5,006	1,454	1,174	7,752
Additions	13	112	416	473	1,014
Disposals	–	–	(51)	(641)	(692)
Written off	–	(64)	(343)	–	(407)
At 31 December 2003	131	5,054	1,476	1,006	7,667
Accumulated depreciation					
At 1 January 2003	24	1,448	190	144	1,806
Charge for the year	30	1,589	319	102	2,040
Disposals	–	–	(14)	(71)	(85)
Written off	–	(16)	(72)	–	(88)
At 31 December 2003	54	3,021	423	175	3,673
Net book value					
At 31 December 2003	77	2,033	1,053	831	3,994
At 31 December 2002	94	3,558	1,264	1,030	5,946

The net book value of the Group's fixed assets held under finance leases at 31 December 2002 amounted to HK\$439,000.

12. Property, plant and equipment (Continued)

(b) Company

	Computer equipment HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 1 January 2003	1,341	792	242	2,375
Additions	20	313	234	567
Disposals	–	–	(234)	(234)
Written off	–	(205)	–	(205)
At 31 December 2003	1,361	900	242	2,503
Accumulated depreciation				
At 1 January 2003	373	117	32	522
Charge for the year	414	177	64	655
Disposals	–	–	(16)	(16)
Written off	–	(38)	–	(38)
At 31 December 2003	787	256	80	1,123
Net book value				
At 31 December 2003	574	644	162	1,380
At 31 December 2002	968	675	210	1,853

Notes to the Accounts

13. Investments in subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	10,939	10,939
Amounts due from subsidiaries	340,737	329,852
Amounts due to subsidiaries	(2,197)	(2,085)
	349,479	338,706
Less: Provision for impairment in value	(212,167)	(86,900)
	137,312	251,806

The balances with subsidiaries are interest-free.

Particulars of the principal subsidiaries:

Name of companies	Place of incorporation/ registration and kind of legal entity	Particulars of issued share/ registered capital	Interest held	Principal activities
<i>Directly held:</i>				
Asia Logistics Technologies (Hong Kong) Limited	Hong Kong, limited liability company	Ordinary shares of HK\$10,000	100%	Provision of management services and trading of listed securities
Asia Logistics Technologies Services Limited	Hong Kong, limited liability company	Ordinary shares of HK\$2	100%	Logistics technology business
Best Cyber Limited	British Virgin Islands, limited liability company	Ordinary shares of US\$1	100%	Investment holding
Front Yard Investment Limited	British Virgin Islands, limited liability company	Ordinary shares of US\$1	100%	Investment in securities

13. Investments in subsidiaries (Continued)

Name of companies	Place of incorporation/ registration and kind of legal entity	Particulars of issued share/ registered capital	Interest held	Principal activities
<i>Directly held (Continued):</i>				
Funcapital Inc.	British Virgin Islands, limited liability company	Ordinary shares of US\$1	100%	Investment holding
Vision On-Line Limited	British Virgin Islands, limited liability company	Ordinary shares of US\$1	100%	Investment holding
亞洲物流科技 (中國)有限公司	Mainland China, wholly-owned foreign enterprise	Registered capital US\$1,400,000	100%	Logistics technology business
<i>Indirectly held:</i>				
亞洲物流(天津) 有限公司	Mainland China, wholly-owned foreign enterprise	Registered capital US\$5,000,000	100%	Logistics management business
Compass E-Commerce Limited	Hong Kong, limited liability company	Ordinary shares of HK\$2	100%	Investment holding
Cyber Pilot Limited	British Virgin Islands, limited liability company	Ordinary shares of US\$2,000	100%	Investment holding
Fusion Tech Holding Limited ("Fusion Tech")	British Virgin Islands, limited liability company	Ordinary shares of US\$100,000	100%	Investment holding
北京金柏新干線信息 科技有限公司	Mainland China, wholly-owned foreign enterprise	Registered capital HK\$10,000,000	100%	Logistics technology business

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14. Investments in associated companies

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	64,899	91,571
Goodwill on acquisition of associated companies less amortisation/impairment	10,781	17,953
	75,680	109,524

Particulars of the principal associated companies:

Name of companies	Place of incorporation/ registration and operations	Particulars of issued share/ registered capital	Interest held indirectly	Principal activities
New World CyberBase Limited	Bermuda/ Hong Kong	Ordinary shares of HK\$116,499,223	27.48%	Investment holding
Han International Consulting Company Limited	British Virgin Islands	Ordinary shares of US\$5,000	30%	Investment holding
漢普管理諮詢 (中國)有限公司	Mainland China	Registered capital US\$6,000,000	30%	Logistics technology business

14. Investments in associated companies (Continued)

New World CyberBase Limited (“NWCB”) is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The directors consider that NWCB is material in the context of the Group’s accounts. 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 accounts of the NWCB Group for the six months ended 30 September 2003, are set out below:

	As at 30 September 2003 (unaudited) HK\$’000	As at 30 September 2002 (unaudited) HK\$’000
Non-current assets	408,316	427,275
Current assets	19,428	67,588
Current liabilities	(78,356)	(90,734)
Non-current liabilities	(112,000)	(103,549)
Minority interests	(1,170)	(198)
Net assets	236,218	300,382
Contingent liabilities:		
Guarantee in respect of credit facilities granted to a former associated company	–	86,000
	Six months ended 30 September 2003 (unaudited) HK\$’000	Six months ended 30 September 2002 (unaudited) HK\$’000
Turnover	15,777	16,251
(Loss)/profit for the period before minority interests	(18,026)	1,621
Minority interests	149	–
(Loss)/profit attributable to shareholders	(17,877)	1,621

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

Notes to the Accounts

15. Investment in a jointly controlled entity

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	–	262

Particulars of the jointly controlled entity:

Name of company	Place of incorporation/ registration and operations	Particulars of issued share/ registered capital	Interest held indirectly	Principal activities
漢道科技諮詢 (珠海)有限公司	Mainland China	Registered capital US\$200,000	50%	Operation of offshore development centre

16. Investment securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity investments listed in Hong Kong, at cost	14,223	14,223
Less: Provision	(12,703)	(12,703)
	1,520	1,520

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 accounts were approximately HK\$5.0 million (2002: HK\$1.5 million) and HK\$4.5 million (2002: HK\$3.3 million) respectively.

17. Trade receivables

Analysis of aging trade receivables of the Group is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current to 90 days	3,135	486
91 to 180 days	1,432	583
	4,567	1,069

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

18. Exchangeable notes

In previous years, a wholly-owned subsidiary of the Company subscribed for exchangeable notes of HK\$28 million issued by two independent third parties (the "Issuers").

The exchangeable notes entitled the Group to exchange for a 50% equity interest in a company registered in the People's Republic of China ("PRC") and an integrated logistics and supply chain technology services provider in the PRC. 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 note instrument but was extendable by a further twelve months upon written request by the Issuers.

In April 2003, the subsidiary entered into agreements with the Issuers, pursuant to which the Group gave up the right attached to the notes and the accrued interest, and the Issuers repaid the entire amount to the Group.

Notes to the Accounts

19. Trading securities

All trading securities owned by the Group are listed in Hong Kong. The carrying values of the following trading securities at 31 December 2003 individually exceeded 10% of the total assets of the Group. The investments are:

Name	Place of incorporation	Particulars of issued share capital	Interest held	Principal activities
BOC Hong Kong (Holdings) Limited	Hong Kong	10,572,780,266 ordinary shares of HK\$5.00 each	Less than 0.01%	Provision of banking and related financial services in Hong Kong
Mexan Limited	Bermuda	1,310,925,244 ordinary shares of HK\$0.10 each	0.56%	Property development and investments, securities investment and trading and investment holding

20. Bank balances and cash

Included in the balance of the Group are balances with PRC banks totaling HK\$1,809,000 (2002: HK\$4,200,000) which are denominated in Renminbi. The expatriation of these balances outside China is subject to foreign exchange control rules and regulations of the PRC.

21. Amount due to a related company

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

22. Trade payables

The trade payable balances as at 31 December 2002 and 31 December 2003 were aged less than three months.

23. Convertible bonds

In November 2001, the Company issued a HK\$39,286,000 convertible bonds (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 (“NWD”). NWD is a company incorporated in Hong Kong and whose shares are listed on the Stock Exchange. The Convertible Bond is convertible into shares of the Company at an initial conversion price of HK\$0.10 per share (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 be repaid, subject to and in accordance with the terms of the Convertible Bond, on 1 November 2004.

In December 2003, a portion of the Convertible Bond with a principal amount of HK\$11,000,000 was converted into 110,000,000 ordinary shares of the Company at the conversion price of HK\$0.10 per share. In addition, NWCN has indicated its intention in writing that the maturity date of the Convertible Bond be extended to 1 November 2007. Based on this indication, the Convertible Bond is classified as a non-current liability as at 31 December 2003.

24. Share capital

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000

The movements in the share capital were as follows:

	Number of shares in issue	Issued share capital
		<i>HK\$'000</i>
At 1 January 2002	3,182,434,000	31,824
Subscription for new shares (<i>Note (a)</i>)	159,121,700	1,591
Shares issued for acquisition of Fusion Tech (<i>Note (b)</i>)	300,000,000	3,000
At 31 December 2002 and 1 January 2003	3,641,555,700	36,415
Issuance of new shares upon conversion of Convertible Bond (<i>Note (c)</i>)	110,000,000	1,100
At 31 December 2003	3,751,555,700	37,515

Notes to the Accounts

24. Share capital (Continued)

Notes:

- (a) Pursuant to a subscription agreement dated 21 March 2002 made between Grade Win International Limited and the Company, 159,121,700 new ordinary shares of HK\$0.01 each in the capital of the Company were issued on 10 May 2002 at a price of approximately HK\$0.1332 per share. A sum of approximately HK\$20,000,000, 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 amounting to HK\$19,604,000 was fully credited to the share premium account. These shares rank pari passu with the existing shares.
- (b) On 23 October 2002, 300,000,000 new ordinary shares at HK\$0.01 each in the capital of the Company were issued at a price of HK\$0.15 per share for the acquisition of 45.702% interest in Fusion Tech from Southern Victory Developments Limited. The excess of the proceeds over the nominal value of the shares amounting to HK\$20,400,000 was fully credited to the share premium account. These shares rank pari passu with the existing shares.
- (c) As disclosed in Note 23, a portion of the Convertible Bond was converted into 110,000,000 ordinary shares in the Company at the conversion price of HK\$0.10 per share. The excess of the proceeds over the nominal value of the shares amounting to HK\$9,900,000 was fully credited to the share premium account. These shares rank pari passu with the existing shares.

25. Share option schemes

On 28 May 2002, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme adopted on 11 September 1998 (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 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 at a general meeting.

25. Share option schemes *(Continued)*

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.

No share options were granted under the New Scheme during the year. At 31 December 2003, the number of shares available for issue under the New Scheme is 334,155,700 shares, representing approximately 8.9% of the issued share capital of the Company as at the date of these accounts.

Notes to the Accounts

25. Share option schemes (Continued)

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

Name or category of participant	Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of shares subject to options			
					At 1 January 2003	Exercised during the year	Lapsed during the year	At 31 December 2003
Directors:								
Mr. Lo Lin Shing, Simon	14 August 2000	–	15 August 2000 to 14 August 2003	0.284	57,000,000	–	(57,000,000)	–
	8 February 2002	9 February 2002 to 8 February 2003	9 February 2002 to 8 February 2008	0.150	20,000,000	–	–	20,000,000
Mr. Chan Ki	14 August 2000	–	15 August 2000 to 14 August 2003	0.284	57,000,000	–	(57,000,000)	–
Mr. Chan Wai Keung, Ringo	8 February 2002	9 February 2002 to 8 February 2003	9 February 2002 to 8 February 2008	0.150	10,000,000	–	–	10,000,000
Mr. Yu Ansheng, Ben	8 February 2002	9 February 2002 to 8 February 2003	9 February 2002 to 8 February 2008	0.150	10,000,000	–	–	10,000,000
Employees	8 February 2002	9 February 2002 to 8 February 2003	9 February 2002 to 8 February 2008	0.150	5,900,000	–	(900,000)	5,000,000
Total					159,900,000	–	(114,900,000)	45,000,000

Note: The options are vested in tranches during the vesting period.

At 31 December 2003, the Company had 45,000,000 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 45,000,000 additional ordinary shares of the Company and additional share capital of HK\$450,000 and share premium of HK\$6,300,000 (before issue expenses).

26. Reserves

(a) **Group**

	<i>Note</i>	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003		307,880	(93,640)	214,240
Conversion of convertible bonds	24(c)	9,900	–	9,900
Loss for the year		–	(153,424)	(153,424)
At 31 December 2003		317,780	(247,064)	70,716
At 1 January 2002		268,594	(4,246)	264,348
Premium on issue of shares	24(a), (b)	40,004	–	40,004
Share issue expenses	24	(718)	–	(718)
Loss for the year		–	(89,394)	(89,394)
At 31 December 2002		307,880	(93,640)	214,240
Representing:				
Company and subsidiaries		317,780	(195,397)	122,383
Jointly controlled entity		–	(390)	(390)
Associated companies		–	(51,277)	(51,277)
At 31 December 2003		317,780	(247,064)	70,716
Company and subsidiaries		307,880	(76,079)	231,801
Jointly controlled entity		–	(128)	(128)
Associated companies		–	(17,433)	(17,433)
At 31 December 2002		307,880	(93,640)	214,240

Notes to the Accounts

26. Reserves (Continued)

(b) Company

	<i>Note</i>	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003		440,870	(233,543)	207,327
Conversion of convertible bonds	24(c)	9,900	–	9,900
Loss for the year		–	(123,649)	(123,649)
At 31 December 2003		450,770	(357,192)	93,578
At 1 January 2002		401,584	(137,439)	264,145
Premium on issue of shares	24(a), (b)	40,004	–	40,004
Share issue expenses	24	(718)	–	(718)
Loss for the year		–	(96,104)	(96,104)
At 31 December 2002		440,870	(233,543)	207,327

- (c) 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 dividends 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.
- (d) The Company's reserves available for distribution at 31 December 2003 amounted to HK\$93,578,000 (2002: HK\$207,327,000) which subject to the restrictions stated above.

27. Deferred taxation

At 31 December 2003, the Group has the following unprovided deferred taxation:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Deferred tax liabilities/(assets)		
Accelerated depreciation allowance	184	242
Unrealised gain on trading securities	1,093	–
Tax losses	(10,395)	(7,920)
Provision for obsolete inventories	(1,313)	–
	(10,431)	(7,678)

Notes to the Accounts

28. Consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash outflow from operations

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(153,424)	(92,944)
Finance costs	1,171	1,565
Share of losses of jointly controlled entity and associated companies	34,106	18,161
Profit on disposal of trading securities	(2,976)	–
Unrealised gain on trading securities	(6,244)	–
Depreciation	2,040	2,102
Amortisation of goodwill	6,920	3,950
Loss on disposal of fixed assets	206	668
Loss on deemed disposal of subsidiaries	–	1,032
Write off of fixed assets	319	4,508
Provision for doubtful debts	–	1,104
Provision for other receivables	–	6,649
Impairment of investment securities	–	12,703
Interest income	(454)	(2,182)
Impairment of goodwill	94,523	–
Provision of obsolete inventories	7,611	–
Operating loss before working capital changes	(16,202)	(42,684)
Increase in inventories	(353)	(6,293)
Decrease/(increase) in amount due from a jointly controlled entity	27	(230)
(Increase)/decrease in trade receivables	(3,498)	980
Decrease in prepayments, deposits and other receivables	5,897	8,357
Increase in amount due from an associated company	–	(549)
(Decrease)/increase in trade payables	(476)	605
(Decrease)/increase in other payables and accruals	(6,108)	7,964
(Decrease)/increase in amounts due to associated companies	(378)	802
Decrease in amount due to a related company	–	(1)
Net cash outflow generated from operations	(21,091)	(31,049)

(b) Major non-cash transactions

During the year, NWCN converted part of Convertible Bond of the principal amount of HK\$11,000,000 into 110,000,000 ordinary shares of the Company at the conversion price of HK\$0.10 per share.

28. Consolidated cash flow statement *(Continued)*

(c) **Acquisition of subsidiaries**

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net liabilities acquired:		
Fixed assets	–	460
Trade receivables	–	890
Prepayments, deposits and other receivables	–	770
Cash and cash equivalents	–	503
Trade payables	–	(283)
Other payables and accruals	–	(2,710)
Interest-bearing bank loans	–	(2,076)
Minority interests	–	(251)
	–	(2,697)
Goodwill on acquisition	–	81,275
	–	78,578
Satisfied by:		
Cash consideration payable	–	18
Reclassification from long term investments	–	3,000
Exercise of exchangeable notes	–	75,560
	–	78,578
	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	503

29. Commitments

(a) **Capital commitments**

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Capital contributions payable to a jointly controlled entity	–	390
	–	390

(b) **Operating lease arrangements**

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	584	664
Later than one year and not later than five years	82	120
	666	784

Notes to the Accounts

30. Related party transactions

Significant related party transactions, which are carried out in the normal course of the Group's business are as follows:

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Rental and office administrative expenses paid to related companies, a director of which is also a director of the Company	<i>(a)</i>	654	1,900
Interest paid for the Convertible Bond to NWCN, a director of which is also a director of the Company	<i>(b)</i>	1,154	1,179

- (a) 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.
- (b) During the year, the Company paid interest of approximately HK\$1,154,000 to NWCN, the Convertible Bond holder. The interest was charged at 3% per annum and was payable semi-annually in arrears (Note 23).

31. Subsequent events

On 1 April 2004, the Company made a public announcement (the “Announcement”) jointly with NWD, disclosing the following transactions:

- (a) The Company has entered into a sale and purchase agreement on 29 March 2004 with a wholly-owned subsidiary of NWD that the Company has agreed, subject to certain conditions as disclosed in the Announcement, to acquire the entire equity interest in New World PCS Holdings Limited (“NWPCS”) at a consideration of HK\$1,250,000,000. NWPCS is engaged in the mobile telecommunications business.
- (b) The Company has entered into a subscription agreement on 29 March 2004 with another wholly-owned subsidiary of NWD, Power Palace Group Limited (“PPG”), that PPG has agreed, subject to certain conditions as disclosed in the Announcement, to subscribe for: (i) 4,166,666,667 shares in the Company at HK\$0.012 per share, and (ii) a 3 year convertible note at a principal amount of HK\$1,200,000,000.
- (c) The Company has proposed to effect a distribution in specie of the shares in New World CyberBase Limited being held by the Group.
- (d) The Company has proposed to apply the amount standing to the credit of the share premium account to set off against the accumulated losses of the Company.
- (e) The Company has proposed that the existing authorised share capital be increased from HK\$100,000,000 to HK\$2,000,000,000 by the creation of additional 190,000,000,000 shares.
- (f) The Company has proposed that, subject to the completion of the subscription agreement mentioned in (b) above, every 100 then existing shares of HK\$0.01 each in the Company be consolidated into one new consolidated share of HK\$1.00.
- (g) The Company has proposed that, subject to the completion of the subscription agreement mentioned in (b) above, the Company will change its name to “New World Mobile Holdings Limited (新世界移動控股有限公司).”

Details and conditions of the above transactions are fully described in the Announcement.

32. Approval of the accounts

The accounts were approved and authorised for issue by the board of directors on 23 April 2004.