

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Arthur Andersen & Co, Certified Public Accountants, Hong Kong.



ARTHURANDERSEN

Arthur Andersen & Co

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

11th August, 2000

The Directors
CyberM International (Holdings) Limited
Core Pacific - Yamaichi Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to CyberM International (Holdings) Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for inclusion in the prospectus of the Company dated 11th August, 2000 (“the Prospectus”).

The Company was incorporated in Bermuda on 3rd March, 2000 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company has not carried on any business since its incorporation, except that on 1st August, 2000 it acquired the entire issued share capital of McManners Management Limited through a share exchange and consequently became the holding company of the Group. McManners Management Limited acts as an intermediate holding company of the other companies comprising the Group.

As at the date of this report, no audited financial statements have been prepared by the Company and McManners Management Limited as they were not subject to any statutory audit requirements in their jurisdictions of incorporation. We have, however, reviewed all relevant transactions of these companies for the years covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

In December 1999, CyberM Holdings Limited, a group company, disposed of its entire 40% equity interest in Msoft Systems Limited, a company incorporated in Hong Kong, which was dormant during the year ended 31st March, 2000. For the purpose of preparing this report, the Group's 40% share of the results of Msoft Systems Limited has been included in the combined results of the Group for the years ended 31st March, 1999 and 2000 up to the date of disposal.

We have acted as auditors of the other companies comprising the Group for the years covered in this report or since their respective dates of incorporation where this is a shorter period, except for CyberM Holdings Limited, CyberM E-commerce Limited, CyberM Information Technology Limited, CyberM Mobile Computing Limited and Msoft Systems Limited for the year ended 31st March, 1999, which were audited by Messrs. Lam, Lee & So CPA Company Limited, Certified Public Accountants, Hong Kong.

We have examined the audited financial statements or management accounts of the companies now comprising the Group for the years ended 31st March, 1999 and 2000, or since their respective dates of incorporation where this is a shorter period, and have examined the audited financial statements of Msoft Systems Limited for the year ended 31st March, 1999 and the management accounts of Msoft Systems Limited up to the date of its disposal. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of operations of the Group for the years ended 31st March, 1999 and 2000 and of the combined net assets of the Group as at 31st March, 2000 ("the Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group as well as Msoft Systems Limited on the basis set out in Section 1 below, after making such adjustments as are appropriate.

The Directors of the respective companies now comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are also responsible for the summaries of the combined results of operations of the Group for the years ended 31st March, 1999 and 2000 and of the combined net assets of the Group as at 31st March, 2000. It is our responsibility to form an independent opinion on the summaries of the combined results of operations and of the combined net assets of the Group.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of operations of the Group for the years ended 31st March, 1999 and 31st March, 2000 and of the combined net assets of the Group as at 31st March, 2000.

1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries (all of which are private companies or, if incorporated or established outside of Hong Kong, have substantially the same characteristics as a Hong Kong private company):

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Mcmanners Management Limited	British Virgin Islands 12th March, 1997	US\$10,000	100%	Investment holding
CyberM Holdings Limited (formerly known as Magic Holdings Limited)	Hong Kong 28th May, 1997	HK\$10,000	100%	Inactive since 31st March, 2000, previously investment holding
CyberM E-commerce Limited (formerly known as Magic E-Commerce Limited and Focus Computer Store Limited)	Hong Kong 30th May, 1990	HK\$250,000	100%	Inactive up to 31st March, 2000, thereafter research and development in CyberM Business Series
CyberM Information Technology Limited (formerly known as Magic Information Technology Limited and Magic Computer (H.K.) Limited)	Hong Kong 21st December, 1990	HK\$700,000	100%	Development and trading of computer software, trading of computer hardware and provision of computer consultancy services
CyberM Mobile Computing Limited (formerly known as Magic Mobile Computing Limited and Joyful Sky Limited)	Hong Kong 26th March, 1997	HK\$2	100%	Inactive up to 31st March, 2000, thereafter research and development in CyberM Mobile Series

The summary of the combined results of operations includes the results of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years covered by this report or since their respective dates of incorporation where this is a shorter period, and the results of Msoft Systems Limited until the date of its disposal, as described above. The summary of the combined net assets of the Group as at 31st March, 2000 has been prepared to present the assets and liabilities of the companies now comprising the Group as at that date, as if the current group structure had been in existence as at 31st March, 2000.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

a. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment.

b. Associated company

An associated company is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. Investment in associated company is stated at the Group's share of the fair value of the separable net assets of the associated company at the time of acquisition, plus the Group's share of undistributed post acquisition profits/losses and reserves of the associated company.

c. Turnover and revenue recognition

Turnover comprises (i) the net invoiced value for sales of packaged software and computer hardware, after allowance for returns and discounts, (ii) fees for developing customised solutions, (iii) fees for technical support and maintenance services, and (iv) rental income.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Fees for developing customised solutions are recognised when the services are performed by reference to identifiable phases of progress of the underlying projects. Fees for technical support and maintenance services are recognised ratably over the term of the contracts. Rental income is recognised when rental is receivable. Management fees are recognised when the service is rendered. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

Advance payments received from customers prior to delivery of merchandise, development of customised solutions or rendering of other services are recorded as receipts in advance. No work-in-progress was recognised as there were no material direct costs attributable to these services.

d. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

e. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

f. **Advertising and promotion**

The costs for advertising and promotion are expensed in the period in which they are incurred.

g. **Staff retirement benefits**

The costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

h. **Software development expenditures**

Research and development expenditures relating to software development and enhancement are expensed in the period in which they are incurred.

i. **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	50% (over unexpired lease term)
Furniture and fixtures	25%
Computer equipment	25%
Motor vehicle	25%

Management assesses the recoverability of the carrying amount of fixed assets periodically with reference to the open market value as determined by independent qualified valuers. The amount of any write-down of fixed assets is recognised as an expense in the period in which the write-down occurs.

Gains and losses on disposal of fixed assets are recognised in the income statements based on the net disposal proceeds less the then carrying amount of the assets.

Fixed assets held under finance leases are accounted for on the same basis as described above.

j. Investment property

Investment property is an interest in leasehold land and building in respect of which construction and development work have been completed and which is held for its long-term investment potential. Investment property is included in the balance sheet at its open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment property are dealt with in the investment property revaluation reserve unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statements. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statements is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for the investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

l. Leases

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with equivalent liabilities categorised as appropriate under current or non-current liabilities. Interest expense, which represents the difference between the minimum payments at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are recognised as an expense on a straight-line basis over the period of the relevant leases.

m. Foreign currency translation

Companies within the Group maintain their books in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statements of the individual companies.

3. RESULTS OF OPERATIONS

The following is a summary of the combined results of operations of the Group for the years ended 31st March, 1999 and 2000, prepared on the basis set out in Section 1 above:

	<i>Note</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	(a)	12,339	18,720
Cost of sales		<u>(3,128)</u>	<u>(7,062)</u>
Gross profit		9,211	11,658
Other revenue		30	—
Distribution and selling expenses		(299)	(612)
Software development expenditures		(2,960)	(3,020)
General and administrative expenses		<u>(4,124)</u>	<u>(5,855)</u>
Profit from operations		1,858	2,171
Interest income		—	14
Interest expense		<u>(283)</u>	<u>(256)</u>
Profit before share of loss of an associated company		1,575	1,929
Share of loss of an associated company		<u>(93)</u>	<u>—</u>
Profit before taxation	(b)	1,482	1,929
Taxation	(c)	<u>(319)</u>	<u>(387)</u>
Profit attributable to shareholders		<u>1,163</u>	<u>1,542</u>
Dividends	(d)	<u>—</u>	<u>—</u>
Earnings per share — Basic	(e)	<u>HK0.55 cents</u>	<u>HK0.73 cents</u>

The profit attributable to shareholders would have been impacted as follows after adjustment for notional directors' emoluments under service contracts detailed in Section 3.f(iii) below:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit attributable to shareholders	1,163	1,542
Adjustment for notional directors' emoluments	<u>(549)</u>	<u>(793)</u>
Adjusted profit attributable to shareholders	<u>614</u>	<u>749</u>

Notes:

a. **Turnover and revenue**

Turnover and revenue consisted of:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Sales of computer hardware	3,280	5,932
Sales of packaged software	3,781	4,211
Fees for developing customised solutions	3,610	5,719
Fees for technical support and maintenance services	1,668	2,847
Rental income	<u>—</u>	<u>11</u>
Total turnover	12,339	18,720
Management fees	30	—
Interest income	<u>—</u>	<u>14</u>
Total revenue	<u>12,369</u>	<u>18,734</u>

b. Profit before taxation

Profit before taxation was stated after charging and crediting the following:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
After charging –		
Staff costs	4,469	5,175
Less: amount included in software development expenditures	<u>(2,485)</u>	<u>(2,614)</u>
	1,984	2,561
Operating lease rentals of premises	255	356
Software development expenditures	2,960	3,020
Advertising and promotion costs	117	244
Provision for bad and doubtful debts	141	1,307
Depreciation of fixed assets		
- owned assets	230	176
- assets held under finance leases	—	70
Impairment in value of fixed assets*	334	—
Interest expense on		
- bank loan not wholly repayable within five years	283	230
- finance leases	—	26
Auditors' remuneration	<u>39</u>	<u>168</u>
After crediting –		
Rental income less outgoings	—	11
Interest income from bank deposits	<u>—</u>	<u>14</u>

* : This represents a write-down of the carrying value of leasehold land and building by reference to the open market value of the land and building as at 31st March, 1999 as determined by DTZ Debenham Tie Leung Limited, independent qualified valuers.

c. Taxation

Taxation consisted of:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current taxation		
- Hong Kong profits tax	325	387
- Special rebate by the Government of Hong Kong Special Administrative Region	<u>(6)</u>	<u>—</u>
	<u>319</u>	<u>387</u>

Hong Kong profits tax was provided at the rate of 16% for the years ended 31st March, 1999 and 31st March, 2000 on estimated assessable profit arising in or derived from Hong Kong.

On 3rd March, 1999, the Government of Hong Kong Special Administrative Region announced a special profits tax rebate of 10% on the profits tax charged and paid for the year of assessment 1997/98 (year ended 31st March, 1998). In this connection, the tax rebate received amounting to approximately HK\$6,000 was recognised in the combined results of operations of the Group for the year ended 31st March, 1999.

There was no significant unprovided deferred taxation for the years ended 31st March, 1999 and 31st March, 2000.

d. **Dividends**

No dividend has been paid or declared by the Company since its incorporation.

The following dividend was paid by CyberM Information Technology Limited out of its retained profit to its then shareholders:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
CyberM Information Technology Limited	1,400	—
Less: Intra-group dividend received by CyberM Holdings Limited	<u>(1,400)</u>	<u>—</u>
	<u>—</u>	<u>—</u>

e. **Earnings per share**

The calculation of basic earnings per share for the years ended 31st March, 1999 and 31st March, 2000 is based on the profit attributable to shareholders during the years and assuming 212,500,000 shares in issue and issuable, comprising 27,279,980 shares in issue as at the date of the Prospectus and 185,220,020 shares to be issued pursuant to the Capitalisation Issue as described in page 162 Appendix IV to the Prospectus.

f. **Directors' and senior executives' emoluments**

i. Details of emoluments paid to directors of the Company were:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	—	—
Other emoluments		
- Basic salaries and allowances	998	689
- Bonuses	50	54
- Pension scheme contributions	<u>47</u>	<u>61</u>
	<u>1,095</u>	<u>804</u>

No director waived any emoluments during the years covered by this report.

During the year ended 31st March, 2000, three shareholders of Mcmanners Management Limited, the intermediate holding company of other companies comprising the Group, transferred certain shares at nil consideration to Mr. Fung Yiu Fai as inducement to him in joining the Group as an executive director. Upon completion of the reorganisation as mentioned in Section 7.b below, such shares are converted into an effective interest of 6,375,000 shares (representing 3% interest in the Company before the placing of 37,500,000 new shares) in the Company held by Noble Class Group Limited, a company under a trust scheme of which among others, Mr. Fung Yiu Fai is one of the discretionary objects.

Save as disclosed above, no incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the years ended 31st March, 1999 and 2000.

The number of directors whose remuneration fall within the following band are as follows:

	1999	2000
Nil to HK\$ 1,000,000	<u>4</u>	<u>5</u>

The four executive directors received individual emoluments of approximately Nil, HK\$415,000, HK\$311,000, and HK\$369,000 for the year ended 31st March, 1999 and the five executive directors received individual emoluments of approximately Nil, HK\$269,000, HK\$221,000 HK\$239,000 and HK\$75,000 for the year ended 31st March, 2000.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 31st March, 2001 is estimated to be approximately HK\$1,545,000.

- ii. Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries and allowances	1,529	1,283
Bonuses	107	107
Pension scheme contributions	<u>58</u>	<u>51</u>
Number of directors	3	1
Number of employees	<u>2</u>	<u>4</u>
	<u>5</u>	<u>5</u>

During the years ended 31st March, 1999 and 31st March, 2000, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of each of the highest paid individuals falls within the band of Nil to HK\$1,000,000 during the years ended 31st March, 1999 and 31st March, 2000.

- iii. Notional adjustment:

Each of the executive directors of the Company has entered into a service agreement with the Company for a term of two years subsequent to 31st March, 2000. The annual remuneration and benefits in kind for the five executive directors under these service agreements in aggregate amounted to approximately HK\$1,748,000 with effect from August 2000. Had the service agreements been effective during the years ended 31st March, 1999 and 2000, the combined results of operations of the Group would have been impacted by a notional adjustment as follows:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Notional directors' emoluments under service contracts	1,748	1,748
Directors' emoluments paid	<u>(1,095)</u>	<u>(804)</u>
Less: tax effect	653 <u>(104)</u>	944 <u>(151)</u>
	<u>549</u>	<u>793</u>

g. **Retirement benefits**

The Group has arranged for its employees a defined contribution provident fund, which is managed by an independent trustee. The Group makes monthly contributions to the scheme with an amount ranging from 3% to 7% of the employees' basic salaries. The employees are entitled to receive 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing nine years of service, or at a reduced scale of between 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the Group's employer contribution. For the years ended 31st March, 1999 and 2000, the aggregate amounts of employer contribution made by the Group were approximately HK\$94,000 and HK\$121,000, respectively, after deduction of forfeited contributions of approximately HK\$8,000 and HK\$16,000, respectively. As at 31st March, 2000, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

h. **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to 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.

As at 31st March, 2000, the Group's banking facilities were secured by, among others, a personal guarantee provided by Mr. Lau Chiu Pui, a director of the Company. Subsequent to 31st March, 2000, the personal guarantee provided by the director of the Company was released and replaced by a corporate guarantee provided by the Company.

Particulars of significant transactions between the Group and related parties during the years covered by this report are summarised below:

	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-continuing:		
Msoft Systems Limited (i)		
- Purchases from the Group	315	—
- Management fees earned by the Group	30	—
Noble Class Group Limited (ii)		
- Acquisition of Msoft Systems Limited from the Group at net book value	—	78
	<u> </u>	<u> </u>

Notes:

- (i) Msoft Systems Limited was a 40% owned associated company of the Group. In December 1999, the Group disposed of its entire 40% interest in Msoft Systems Limited to Noble Class Group Limited, a company under a trust scheme of which, among others, Mr. Lau Chiu Pui, Mr. Yip Ho Pong, Mr. Lai Shu Pui, Mr. Wong Kit Mei and Mr. Fung Yiu Fai, the directors of the Company are discretionary objects.
- (ii) Noble Class Group Limited was a company under a trust scheme of which, among others, Mr. Lau Chiu Pui, Mr. Yip Ho Pong, Mr. Lai Shu Pui, Mr. Wong Kit Mei and Mr. Fung Yiu Fai, the directors of the Company, are the discretionary objects.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the usual course of the business of the Group and on normal commercial terms.

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 31st March, 2000, prepared on the basis set out in Section 1 above.

	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	(a)		1,022
Investment property	(b)		1,700
Long-term investments	(c)		330
Current assets:			
Inventories	(d)	269	
Accounts receivable		2,569	
Prepayments, deposits and other current assets	(e)	1,005	
Cash and bank deposits		<u>2,217</u>	
Total current assets		<u>6,060</u>	
Current liabilities:			
Long-term bank loan, current portion	(f)	(242)	
Finance lease obligations, current portion	(g)	(133)	
Accounts payable		(2,980)	
Receipts in advance		(43)	
Accruals and other payables		(794)	
Taxation payable		<u>(396)</u>	
Total current liabilities		<u>(4,588)</u>	
Net current assets			<u>1,472</u>
Total assets less current liabilities			4,524
Non-current liabilities:			
Long-term bank loan, non-current portion	(f)		(1,837)
Finance lease obligations, non-current portion	(g)		(376)
Due to a director*	(h)		<u>(2,310)</u>
Net assets	(i)		<u><u>1</u></u>

* Subsequently capitalised (see Section 7.a).

Notes:

a. **Fixed assets**

Fixed assets consisted of:

	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Leasehold improvements	260	(11)	249
Furniture and fixtures	438	(207)	231
Computer equipment	876	(724)	152
Motor vehicle	457	(67)	390
	<u>2,031</u>	<u>(1,009)</u>	<u>1,022</u>

The motor vehicle and certain furniture with a net book value of approximately HK\$390,000 and HK\$170,000, respectively, were held under finance leases (see Section 4.g).

b. **Investment property**

Investment property was transferred from fixed assets on 1st March, 2000 at the then carrying value of HK\$1,700,000.

The investment property is located in Hong Kong and is held under a medium-term lease on the basis of the rights of extension by virtue of the New Territories Leases (Extension) Ordinance 1998. It is stated at its open market value of HK\$1,700,000 as at 31st March, 2000 as determined by DTZ Debenham Tie Leung Limited, independent qualified valuers. The investment property is mortgaged as collateral for the Group's banking facilities (see Section 6.a).

c. **Long-term investments**

Long-term investments represented cost of club debentures.

d. **Inventories**

Inventories held for trading purpose comprised computer software products.

e. **Prepayments, deposits and other current assets**

Prepayments, deposits and other current assets consisted of:

	<i>HK\$'000</i>
Rental and utility deposits	205
Deferred share issuance expenditures	777
Others	<u>23</u>
	<u>1,005</u>

f. **Long-term bank loan**

Details of long-term bank loan, which was secured, were:

	<i>HK\$'000</i>
Amounts repayable within a period	
- not exceeding one year	242
- more than one year but not exceeding two years	270
- more than two years but not exceeding five years	1,006
- more than five years	<u>561</u>
	2,079
Less: Amounts repayable within one year included under current liabilities	<u>(242)</u>
	<u><u>1,837</u></u>

Refer to Section 6 for details of the Group's banking facilities.

g. **Finance lease obligations**

Details of obligations under finance leases, net of future finance charges, were:

	<i>HK\$'000</i>
Amounts repayable within a period	
- not exceeding one year	133
- more than one year but not exceeding two years	154
- more than two years but not exceeding five years	<u>222</u>
	509
Less: Amounts repayable within one year included under current liabilities	<u>(133)</u>
	<u><u>376</u></u>

h. **Due to a director**

This represents an amount due to Mr. Lau Chiu Pui, a director of the Company, which was unsecured and non-interest bearing. The amount due to a director was capitalised subsequent to 31st March, 2000 (see Section 7.a).

i. **Net assets of the Company**

The Company was incorporated on 3rd March, 2000. On the basis as set out in Section 1 above, the net assets of the Company as at 31st March, 2000 amounted to approximately HK\$1,000, representing investment in subsidiaries.

j. **Distributable reserves**

The Company has not carried on any business since its incorporation, except for the acquisition on 1st August, 2000 of the subsidiaries set out in Section 1 above. Accordingly, the Company had no reserve available for distribution to shareholders as at 31st March, 2000.

5. COMMITMENTS

As at 31st March, 2000, the Group had commitments in respect of rented premises under a non-cancellable operating lease agreement extending to January 2002 amounting to approximately HK\$1,118,000. The amount of commitments payable within the next twelve months was analysed as follows:

HK\$'000

Lease expiring within two to five years

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6. BANKING FACILITIES

As at 31st March, 2000, the Group had an outstanding bank loan of approximately HK\$2,079,000. This was secured by:

- a. a mortgage over the Group's investment property with an open market value of HK\$1,700,000 (see Section 4.b); and
- b. personal guarantees provided by Mr. Lau Chiu Pui, a director of the Company, and a third party.

Subsequent to 31st March, 2000, the personal guarantees provided by the director of the Company and the third party were released and replaced by a corporate guarantee provided by the Company.

7. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31st March, 2000 and up to the date of this report:

- a. on 30th June, 2000, the amount due to Mr. Lau Chiu Pui, a director of the Company, amounting to approximately HK\$2,310,000 was assigned to Noble Class Group Limited and was thereafter capitalised on 1st August, 2000;
- b. the Group completed a reorganisation in preparation for a listing of shares of the Company on The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of Appendix IV to this prospectus; and
- c. pursuant to a written resolution of the sole shareholder of the Company dated 1st August, 2000, resolutions were passed to effect the transactions set out in the subsection headed "Resolutions in writing of the sole shareholder of the Company passed on 1st August, 2000" of Appendix IV to this prospectus.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st March, 2000. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st March, 2000.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants