



RIVERHILL HOLDINGS LIMITED

山河控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

**2004**  
ANNUAL REPORT

\*For identification only

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

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this annual report.

The annual report for which the directors of Riverhill Holdings Limited (the “Directors”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to Riverhill Holdings Limited. The Directors, having made all responsible enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this audited annual result is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and founded on bases and assumptions that are fair and reasonable.

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## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Sze Edvon Yeung Lung (*Chairman*)  
Mr. Shum Sai

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chu Chi Kong, Francis  
Mr. Cheung Kwok Chiu, Kris  
Mr. Fu Wing Kwok, Ewing

### QUALIFIED ACCOUNTANT

Mr. Yeung Chin Cheung

### COMPANY SECRETARY

Mr. Sze Edvon Yeung Lung

### AUTHORISED REPRESENTATIVES

Mr. Sze Edvon Yeung Lung  
Mr. Shum Sai

### AUDIT COMMITTEE

Mr. Chu Chi Kong, Francis  
Mr. Cheung Kwok Chiu, Kris  
Mr. Fu Wing Kwok, Ewing

### AUDITORS

HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants  
6/F Wheelock House  
20 Pedder Street  
Central  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

### REGISTERED OFFICE

Ugland House  
P.O. Box 309  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1502 15/F SBI Centre  
54-58 Des Voeux Road Central  
Hong Kong

### PRINCIPAL BANKERS

Bank of East Asia  
Standard Chartered Bank

## CHAIRMAN'S STATEMENT

I am pleased to present the results of Riverhill Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the financial year ended 30 June 2004.

### RESULTS

For the year ended 30 June 2004, the Group's turnover decreased to nil as no economic benefit was generated from the major subsidiaries and associates in PRC. Full provision of impairment loss on investment in PRC subsidiaries and PRC associates was made. As such, the Group had restricted the working capital on hand to carry on its business and the Group's business then came to a halt. The net asset value of the Group decreased by 49% as at 30 June 2004 to HK\$11,366,000 (2003: HK\$22,106,000). The Board of Directors has resolved not to pay a dividend for the year.

### BUSINESS REVIEW AND LOOKING AHEAD

Under the former management's control, significant loss was incurred to the Group with no turnover was generated. The Company appointed one executive director to the board of the Company. The new management was working intensively to squeeze down the operating expenses, developing new business strategy and now has established profitable business opportunities to the Company.

The year under review continued to be harsh for the business. The uncertainty in the Middle East and the actions against the Terrorism continued to affect on the world economy. However, the growth in PRC economy should generate benefit to help in recovery of the Hong Kong economy

The Group has recently resumed its business operations by providing website design and hosting services (the "Operations") to small and medium enterprises in Hong Kong and The People's Republic of China ("SMEs"). The Group has, at the date hereof, 8 contracts on hand which have been signed and certain deposits paid. Mainly, each of the contracts are on an exclusive basis for a term of 3 years with each contract in the amount of HK\$500,000 per year. The deposit paid by the SMEs per contract is HK\$100,000. Nevertheless, the Group was also obtaining various amounts of contracts by providing services of system enhancement and system upgrade in order to widen up it's customer base in the market. The Group has a further 16 contracts which it is in negotiations with SMEs.

Given the costs involved in staffing the Operations, it is currently proposed that the website design and hosting services will initially be sub-contracted to a company staffed by university graduates with expertise in website design and hosting. The Group has entered into an agreement with such company for it to provide its services to the Group on an exclusive basis for a term of 3 years. If necessary and when appropriate, it has been agreed that certain staff from this company will be appointed as employees of the Group on terms to be agreed.

## CHAIRMAN'S STATEMENT

### **APPRECIATION**

I would also like to express our appreciation to the management and staff members for their hard work and significant contributions to the Group in the past year. Finally, I would like to thank our shareholders for their support to the Group.

**Mr. Sze Edvon Yeung Lung**

*Chairman*

**Riverhill Holdings Limited**

Hong Kong, 22 December 2004

### **Financial highlights**

For the year ended 30 June 2004, the turnover of the Group was reduced to Nil (2003: \$4,282,000). Gross profit ratio was also decreased by 100%. The PRC subsidiaries and the investments in PRC associates have been fully provided for impairment loss by the management of the Company as those subsidiaries and associates cannot generate any future economic benefits to the Group. The Company no longer consolidates the results of the PRC subsidiaries, the Group did not record any turnover for the year ended 30 June 2004. Net loss attributable to shareholders was approximately HK\$10,740,000 this year, about 52% decrease comparing to year 2003 of HK\$ 22,604,000.

The net assets value decreased from HK\$22,106,000 to HK\$11,366,000 this year. It was wholly due to expenses in administrative cost and impairment loss on investments of subsidiaries and associates.

### **Major acquisitions and disposals of assets**

During the year ended 30 June 2004 there was no major acquisitions and disposals of assets including subsidiaries, affiliated companies and investments made by the Group.

### **Working capital**

As at 30 June 2004, the net current assets was about HK\$11,366,000 comprised of cash at approximately HK\$6,000 and other receivables of approximately HK\$ 13,069,000.

### **Liquidity and financial resources**

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.15 as at 30 June 2004 (30 June 2003: 0.23). There was no bank loan and other loan outstanding as at 30 June 2004 but cash flow of the Group has been extremely tight.

### **Capital structure**

During the year ended 30 June 2004, there was no change in the Company's share capital.

### **Hedging policy**

During the year ended 30 June 2004, no hedging measures have been taken due to no turnover in other currency was generated.

### **Contingent liabilities**

As at 30 June 2004, there is no material contingent liabilities needed to be disclosed.

## BUSINESS REVIEW

### **Staff**

As at 30 June 2004, the number of employees has been reduced to three (2003: Less than one hundred). The Group remunerated its staff based on their qualification, performance and the prevailing labour market condition.

### **Share option scheme**

The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme on 14 May 2001. More details can be found in the Report of the Directors.



## PROFILES OF DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. Sze Edvon Yeung Lung**, aged 35, is an associate member of CPA Australia and holds a bachelor degree of commerce in accounting from the University of Canberra, Australia. He has over nine years of experience in finance, accounting and administration. In past two years, Mr. Sze was an executive director of Grandtop International Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited.

**Mr. Shum Sai**, aged 51, is a professional electronic engineer who has engaged in the electronic industry for more than fifteen years. Before joining the Company he was the chief engineer of a company responsible for OEM business development. Since July 2001 Mr. Shum has employed by the Company as person assistant to Professor Mr. He Xian Feng, the former Chairman of the Company. Mr. Shum is also the Compliance Officer of the Company. He became the executive director of the Company on 23 July 2003.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chu Chi Kong**, Francis, aged 33, is a registered Chiropractors Council of Hong Kong and is running his own Chiropractic Clinic. He is also studying a Master Degree in Business administration.

**Mr. Cheung Kwok Chiu, Kris**, aged 34, holds a Diploma in Business Studies and has over ten years of commercial experience.

**Mr. Fu Wing Kwok, Ewing**, aged 34, is the financial controller and company secretary of Sino Union Petroleum & Chemical International Limited, a company listed on the Stock Exchange of Hong Kong Limited. He holds a bachelor degree in science with major in accounting from Bemidji State University, USA and is a member of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He has over 10 years of experience in auditing and accounting field. Mr. Fu is also an Independent Non-Executive Director of Grandtop International Holdings Limited, a company listed on the main Board of Stock Exchange of Hong Kong Limited.

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## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 30 June 2004 is set out in note 4 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The Group's result for the year ended 30 June 2004 and the state of affairs of the Company and the Group as at 30 June 2004 are set out in the financial statements on pages 19 to 56.

The directors do not recommend the payment of any final dividend for the year (2003: Nil).

## REPORT OF THE DIRECTORS

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined results of the Group for the last five financial periods:

	Year ended 30 June 2004	Year ended 30 June 2003	Year ended 30 June 2002	Year ended 30 June 2001	Period from 12 May 1999 to 30 June 2000 (note)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	-	4,282	4,418	14,229	23,852
(LOSS)/PROFIT BEFORE TAXATION	(10,740)	(23,094)	(20,016)	(3,984)	3,130
TAXATION	-	316	-	-	(316)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(10,740)	(22,778)	(20,016)	(3,984)	2,814
Minority interests	-	174	202	-	-
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(10,740)	(22,604)	(19,814)	(3,984)	2,814
TOTAL ASSETS	13,075	27,317	50,499	83,732	29,503
TOTAL LIABILITIES	(1,709)	(5,162)	(5,566)	(19,208)	(26,689)
MINORITY INTERESTS	-	(49)	(223)	-	-
	11,366	22,106	44,710	64,524	2,814

Note: The summary of the combined results for the period ended 30 June 2000 has been extracted from the Company's prospectus dated 18 May 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial period, or since the date of incorporation of the companies where this is a shorter period.

The consolidated results for the year ended 30 June 2001, 30 June 2002 and 30 June 2003 have been extracted from the published audited financial statements of the Company for these years.

## REPORT OF THE DIRECTORS

### **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 11 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital during the year are set out in note 17 to the financial statements. Details of the Company's share option scheme are set out under the heading "Share option scheme" in the Report of the Directors.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 18 to the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 30 June 2004, the Company did not have any reserves available for distribution as calculated in accordance with the laws of the Cayman Islands. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

### **PRE-EMPTIVE RIGHTS**

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

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

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, no sales and cost of sales were generated during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were as follows:

### Executive directors:

Mr. Sze Edvon Yeung Lung	(Appointed on 14 October 2004)
Mr. Shum Sai	(Appointed on 23 July 2003)
Mr. Ng Kay Kwok	(Appointed on 23 July 2003 and resigned on 15 November 2004)
Mr. Liu Hao	(Resigned on 23 July 2003)
Mr. Yick Chong San	(Resigned on 23 July 2003)
Mr. Wang Guo Wei	(Resigned on 23 July 2003)

### Non-executive director

Mr. Yeung Chin Cheung	(Appointed on 14 October 2004 and resigned on 30 November 2004)
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### Independent non-executive directors:

Mr. Hong Jun Yan	(Resigned on 3 November 2003)
Mr. Zhou Qi Ming	(Resigned on 1 November 2003)
Mr. Chu Chi Kong, Francis	(Appointed on 12 November 2003)
Mr. Cheung Kwok Chiu, Kris	(Appointed on 12 November 2003)
Mr. Fu Wing Kwok, Ewing	(Appointed on 14 October 2004)

In accordance with the Company's articles of association, Mr. Chu Chi Kong, Francis, Mr. Cheung Kwok Chiu, Kris and Mr. Fu Wing Kwok, Ewing will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

## DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 7 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, whether directly or indirectly, in any contract significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN SHARES

At 30 June 2004, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

#### Ordinary shares of the Company

Name of directors	Number of shares held and nature of interest		
	Personal	Corporate	Total
Wang Guo Wei (resigned on 23 July 2003)	1,920,000	–	1,920,000
Liu Hao (resigned on 23 July 2003)	1,200,000	–	1,200,000
Yick Chong San (resigned on 23 July 2003)	–	105,921,569 <sup>#</sup>	105,921,569
Shum Sai	2 <sup>*</sup>	–	2
Cheung Kwok Chiu, Kris	1,000 <sup>*</sup>	–	1,000
	<u>3,121,002</u>	<u>105,921,569</u>	<u>109,042,571</u>

<sup>#</sup> 105,921,569 shares of the company are held by Cyber Town Company Limited and are beneficially owned as to 30% by Mr. Yick Chong San.

<sup>\*</sup> The directors received the shares as dividend by being a shareholder of Styland Holdings Limited, the holding company of Global Eagle Investments Limited which is one of the substantial shareholders of the Company.

## REPORT OF THE DIRECTORS

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), on 14 May 2001, the Company granted certain options to the following directors which entitle the holders to subscribe for ordinary shares of the Company. Further details of the Pre-IPO Share Option Scheme are set out under the heading "Share option scheme" below. No share option was exercised by any director during the year.

Details of the share options outstanding at the balance sheet date are as follows:

Name of director	Date of grant	Number of options		Exercise price of options	
		Outstanding as at 1 July 2003	Lapsed during the year		
Wang Guo Wei (resigned on 23 July 2003)	14 May 2001	1,760,000	-	1,760,000	0.6
Liu Hao (resigned on 23 July 2003)	14 May 2001	8,160,000	-	8,160,000	0.6
Yick Chong San (resigned on 23 July 2003)	14 May 2001	5,760,000	-	5,760,000	0.6
Hong Jun Yan (resigned on 3 November 2003)	14 May 2001	400,000	-	400,000	0.6
Zhou Qi Ming (resigned on 3 November 2003)	14 May 2001	400,000	-	400,000	0.6
		<u>16,480,000</u>	<u>-</u>	<u>16,480,000</u>	

The directors will be entitled to exercise (i) one-third of the options after the expiry of two years from 1 June 2001; (ii) one-third of the options after the expiry of three years from 1 June 2001; and (iii) the remaining options after the expiry of four years from 1 June 2001.

Saved as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEMES

- (a) The Company adopted a share option scheme (the “Share Option Scheme”) on 14 May 2001 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Under the Share Option Scheme, the Company may grant options to the executive directors and employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options.

The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange’s daily quotation sheet on the date of offer of the options; (ii) the average of the closing prices of the shares on GEM as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and the Pre-IPO Share Options Scheme, as described below, shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

No option was granted by the Company under the Share Option Scheme since its adoption.

- (b) Pursuant to a written resolution of the sole shareholder of the Company dated 4 May 2001, the Company also adopted the Pre-IPO Share Option Scheme. The terms of the Pre-IPO Share Option Scheme are substantially the same as those under the Share Option Scheme except that:
- (1) the subscription price is HK\$0.60;
  - (2) the aggregate number of shares subject to the Pre-IPO Share Option Scheme is 40,000,000;
  - (3) the grantees eligible for the options included employees who are not in full-time employment, independent non-executive directors and consultants and advisers to the Group;
  - (4) the option holders will be entitled to exercise (i) one-third of the options after the expiry of two years from 1 June 2001; (ii) one-third of the options after the expiry of three years from 1 June 2001; and (iii) the remaining options after the expiry of four years from 1 June 2001.



## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEMES (continued)

(b) (continued)

No options were granted during the year. Details of the share options outstanding at the balance sheet date are as follows:

Category of participant	Date of grant	Number of options		Exercise price of options	
		Outstanding as at 1 July 2003	Lapsed during the year		Outstanding at 30 June 2004
Directors of the Company and its subsidiaries	14 May 2001	16,480,000	–	16,480,000	0.6
Employees of the Group	14 May 2001	23,520,000	–	23,520,000	0.6
		<u>40,000,000</u>	<u>–</u>	<u>40,000,000</u>	

### SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the following interests of 5% or more in the issued share capital of the Company were recorded in the register:

Name of shareholder	Number of shares held	Percentage of share holding
Cyber Town Company Limited*	105,921,569	25.52%
Global Eagle Investments Limited <sup>#</sup>	79,806,031	19.23%
Cyber City Technology Limited	57,254,902	13.80%
Digital World Holdings Limited	29,433,725	7.10%

\* Cyber Town Company Limited is beneficially owned as to 30% by Mr. Yick Chong San.

<sup>#</sup> Global Eagle Investments Limited disposed 34,703,773 shares of the Company on 18 November 2003. The remaining number of shares held is 79,806,031 representing 19.23% of share holding.

Save as disclosed above, no other person had an interest or short position in the share capital of the Company that was required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## REPORT OF THE DIRECTORS

### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the year, none of the directors nor the substantial shareholders of the Company had any interest in any business that directly or indirectly competed with the business of the Group.

### **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 30 June 2004.

### **AUDIT COMMITTEE**

The Company's audit committee was formed on 4 May 2001 with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the board of directors. Following the resignation of Mr. Zhou Qi Ming and Mr. Hong Jun Yan on 1 and 3 November 2003 respectively, the audit committee currently comprises three independent non-executive directors, namely Mr. Chu Chi Kong, Francis, Mr. Cheung Kwok Chiu, Kris and Mr. Fu Wing Kwok, Ewing. Four meetings were held during the financial year.

### **AUDITORS**

HLB Hodgson Impey Cheng were appointed on 29 November 2004 as auditors of the Company in succession to Albert Lam & Co. who resigned on 29 November 2004.

Albert Lam & Co. was appointed as auditors in succession to Charles Chan, Ip & Fung CPA Limited who resigned on 20 August 2003.

HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the appointment of HLB Hodgson Impey Cheng as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board

### **Sze Edvon Yeung Lung**

*Chairman*

Hong Kong,  
22 December 2004



Chartered Accountants  
Certified Public Accountants

6/F, Wheelock House  
20 Pedder Street  
Central  
Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF RIVERHILL HOLDINGS LIMITED**

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

We have audited the financial statements on pages 19 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

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

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

## REPORT OF THE AUDITORS

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **HLB Hodgson Impey Cheng**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong, 22 December 2004

# CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	5	-	4,282
Cost of sales		-	(4,087)
Gross profit		-	195
Other revenue	5	-	312
Selling and distribution costs		-	(1,258)
General and administrative expenses		(2,170)	(13,470)
Other expenses		-	(8,736)
Loss from operating activities	6	(2,170)	(22,957)
Share of losses of associates		-	(137)
Impairment loss on investments in subsidiaries not consolidated	19	(1,269)	-
Impairment loss on investments in associates	14	(7,301)	-
LOSS BEFORE TAXATION		(10,740)	(23,094)
Taxation	8	-	316
LOSS BEFORE MINORITY INTERESTS		(10,740)	(22,778)
Minority interests		-	174
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	9	(10,740)	(22,604)
Loss per share – basic	10	HK(2.59 cents)	HK(5.45 cents)

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The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

at 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	11	–	1,897
Intangible assets	12	–	–
Interests in associates	14	–	7,301
		–	9,198
<b>CURRENT ASSETS</b>			
Inventories	15	–	677
Trade receivables	16	–	24
Prepayments, deposits and other receivables	21	13,069	16,999
Tax recoverable		–	68
Cash and bank balances		6	351
		13,075	18,119
<b>CURRENT LIABILITIES</b>			
Other payables and accrued liabilities		1,709	5,162
<b>NET CURRENT ASSETS</b>			
		11,366	12,957
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		11,366	22,155
<b>MINORITY INTERESTS</b>			
		–	49
<b>Net assets</b>			
		11,366	22,106
<i>Represented by:</i>			
Share capital	17	41,500	41,500
Reserves	18	(30,134)	(19,394)
<b>Shareholders' funds</b>			
		11,366	22,106

Approved by the Board of Directors on 22 December 2004 and signed on its behalf by:

**Sze Edvon Yeung Lung**

Director

**Shum Sai**

Director

The accompanying notes form an integral part of these financial statements.

# BALANCE SHEET

at 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	13	<b>13,035</b>	38,607
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		–	105
Cash and bank balances		<b>6</b>	23
		<b>6</b>	128
<b>CURRENT LIABILITIES</b>			
Other payables and accrued liabilities		<b>1,514</b>	656
<b>NET CURRENT LIABILITIES</b>			
		<b>(1,508)</b>	(528)
<b>Net assets</b>			
		<b>11,527</b>	38,079
<i>Represented by:</i>			
Share capital	17	<b>41,500</b>	41,500
Reserves	18	<b>(29,973)</b>	(3,421)
<b>Shareholders' funds</b>			
		<b>11,527</b>	38,079

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Approved by the Board of Directors on 22 December 2004 and signed on its behalf by:

**Sze Edvon Yeung Lung**  
Director

**Shum Sai**  
Director

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2004

	<b>Share Capital</b> HK\$'000	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 July 2002	41,500	16,288	7,906	(20,984)	44,710
Loss for the year	—	—	—	(22,604)	(22,604)
At 30 June 2003	41,500	16,288	7,906	(43,588)	22,106
Loss for the year	—	—	—	(10,740)	(10,740)
<b>At 30 June 2004</b>	<b>41,500</b>	<b>16,288</b>	<b>7,906</b>	<b>(54,328)</b>	<b>11,366</b>

The accompanying notes form an integral part of these financial statements.



# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		<b>(10,740)</b>	(23,094)
<i>Adjustment for:</i>			
Share of losses of associates		-	137
Depreciation		<b>81</b>	534
Amortisation of computer software		-	473
Loss on disposals of fixed assets		-	662
Amortisation of goodwill		-	1,018
Impairment loss on investment in a subsidiary not consolidated	19	<b>1,269</b>	-
Impairment loss on investment in associates		<b>7,301</b>	-
Impairment of intangible assets		-	1,886
Inventories written off		-	3,231
Fixed assets written off		<b>196</b>	-
Bad debts written off and provision for doubtful debts		-	651
Provision for other receivables		<b>93</b>	-
Operating loss before working capital changes		<b>(1,800)</b>	(14,502)
Decrease in inventories		-	258
Decrease in trade receivables		-	2,911
Decrease in prepayments, deposits and other receivables		<b>971</b>	5,042
Increase in other payables and accrued liabilities		<b>737</b>	1,963
Decrease in trade payables		-	(156)
Decrease in deferred revenue		-	(1,894)
<b>CASH USED IN OPERATIONS</b>		<b>(92)</b>	(6,378)
Tax paid		-	(68)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		<b>(92)</b>	(6,446)

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2004

	Notes	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		-	(715)
Proceeds from disposals of fixed assets		-	204
Loans to an associate		-	(767)
Deconsolidation of investments in subsidiaries	19	<b>(253)</b>	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(253)</b>	(1,278)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(345)</b>	(7,724)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>351</b>	8,075
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>6</b>	351
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>6</b>	351

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The accompanying notes form an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 1. CORPORATE INFORMATION

The Company was principally engaged in investment holding. The Group was engaged in the provision of information technology contract services and software and hardware distribution.

## 2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

In the current year, the Group adopted the following revised SSAP issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (Revised) : Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, ie. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (Revised) had no material impact on the Group’s financial statements in prior years and comparative figures have not been restated.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

### (a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from their effective dates of acquisition or disposals. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

### (c) 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 income statement to the extent of dividends received and receivables. The Company's interests in subsidiaries are stated at cost less any impairment losses.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (d) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement 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.

### (e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

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 unamortised and any relevant reserves, as appropriate.

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

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets (other than inventories, assets arising from construction contracts, deferred tax assets, financial assets other than interests in subsidiaries, associates and joint ventures, and investment properties), or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year 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 policy for that revalued asset.

#### (i) *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### (ii) *Reversal of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (g) Fixed assets and depreciation

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

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

Computer equipment	33 $\frac{1}{3}$ %
Furniture, fixtures, motor vehicles and equipment	20%

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

### (h) Intangible assets

Intangible assets represent purchased computer software, which is stated at cost and amortised on the straight-line basis over their estimated useful lives of two to three years.

### (i) Inventories

Inventories represent trading merchandise and costs incurred for contract work in progress and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of contract work in progress, comprises direct material, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (j) Deferred revenue

Deferred revenue represents contract service fees received in advance. Revenue is recognised and deferred revenue is released to the income statement when the corresponding services are rendered.

### (k) Research and development costs

All research costs are charged to the income statement as incurred.

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

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are available for sale.

### (l) Operating leases

Leases where substantially all the rewards and risks of ownership of asset remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease term.



# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (n) Cash and cash equivalents

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

### (o) Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (p) 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 income statement.

On consolidation, the financial statement of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements 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.

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

### (q) Employee benefits

#### *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 income statement 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 except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

In addition, retirement benefits are paid by the PRC subsidiaries to the PRC employees who, at their own discretion, contribute to the retirement benefit plans managed by the relevant authorities of the provinces/municipalities in the PRC in which they operate. The retirement benefits paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement benefits to the PRC employees.

### (r) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at balance sheet date of the expenditures expected to be required to settle the obligation.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

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

### (s) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (t) Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

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

#### (u) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (1) from the provision of contract services, based on the stage of completion of the respective contracts, which is determined with reference to the terms of the contracts;
- (2) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provide that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (3) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### (v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 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) the sales of software and hardware segment mainly for geographic information system ("GIS") and global positioning system ("GPS") related services;
- (b) the provision of information technology contract services mainly for GIS and GPS related services; and
- (c) the investment holding segment refers to investments in subsidiaries and associates.

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

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

#### Group

	Sales of software and hardware		Provision of information technology contract services		Investment holding		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	-	3,380	-	902	-	-	-	4,282
Other revenue	-	2	-	254	-	9	-	265
Total	-	3,382	-	1,156	-	9	-	4,547
Segment results	-	(11,133)	-	(2,972)	(2,170)	(8,899)	(2,170)	(23,004)
Interest income							-	47
Loss from operating activities							(2,170)	(22,957)
Share of losses of associates	-	-	-	(137)	-	-	-	(137)
Impairment loss on investments in subsidiaries not consolidated							(1,269)	-
Impairment loss on investments in associates							(7,301)	-
Loss before tax							(2,170)	(23,094)
Tax							-	316
Loss before minority interest							(10,740)	(22,778)
Minority interests							-	174
Net loss from ordinary activities attributable to shareholders							(10,740)	(22,604)
Segment assets	-	3,084	-	4,022	13,075	20,211	13,075	27,317
Segment liabilities	-	3,308	-	883	1,709	971	1,709	5,162
Other segment information:								
Depreciation and amortisation	-	-	-	411	81	596	81	1,007
Impairment of computer software	-	-	-	1,238	-	648	-	1,886
Amortisation and impairment of goodwill	-	-	-	87	-	930	-	1,017
Capital expenditure	-	-	-	155	-	560	-	715

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

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

	Hong Kong		Elsewhere in Mainland China		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	-	-	-	4,282	-	4,282
Segment results	(2,170)	(8,899)	-	(14,105)	(2,170)	(23,004)
Other segment information:						
Segment assets	13,075	20,210	-	7,107	13,075	27,317
Capital expenditure	-	560	-	155	-	715

## 5. TURNOVER AND REVENUE

The Group did not receive any turnover for the current year. Turnover of last financial year represented the value of services rendered and the net invoice value of goods sold, after allowances for returns, trade discounts and sales tax.

	2004 HK\$'000	2003 HK\$'000
<b>Turnover:</b>		
Sales of software and hardware	-	3,380
Provision of information technology contract services GIS, GPS related	-	902
	-	4,282
<b>Other revenue:</b>		
Interest income	-	47
Other income	-	265
	-	312
	-	4,594



# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 6. LOSS FROM OPERATING ACTIVITIES

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	–	871
Cost of services rendered	–	3,216
Auditors' remuneration	<b>50</b>	200
Depreciation	<b>81</b>	534
Amortisation of computer software (note i)	–	473
Loss on disposal of fixed assets	–	662
Minimum lease payments under operating lease in respect of land and buildings	<b>78</b>	1,539
Staff costs (including directors' remuneration):		
Wages and salaries (note ii)	<b>787</b>	5,868
Pension scheme contributions (note iii)	<b>39</b>	40
Exchange losses, net	–	28
Interest income	–	(47)
Research and development costs	–	1,950
Impairment of computer software	–	1,886
Amortisation of goodwill	–	1,018
Impairment loss on investments in subsidiaries not consolidated	<b>1,269</b>	–
Impairment loss on investments in an associates	<b>7,301</b>	–
Provision for other receivables	<b>93</b>	–
Bad debts written off	–	417
Provision for doubtful debts	–	235
Inventories written off	–	3,231
Assets written off	<b>196</b>	–

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 6. LOSS FROM OPERATING ACTIVITIES (continued)

Notes:

- i. The amortisation of computer software for the prior year was included in "cost of sales" on the face of the income statement.
- ii. Included approximately HK\$1,895,000 which was included in cost of services rendered for 2003.
- iii. During the year, there were no forfeited contributions available to offset the Group's pension scheme contributions (2003: Nil). At 30 June 2004, there were no forfeited contributions available to reduce contributions in future years (2003: Nil).

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### (a) Directors' remuneration

Directors' remunerations disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 HK\$'000	2003 HK\$'000
Independent non-executive directors:		
Fees	–	45
Executive directors:		
Fees	24	–
Salaries and allowances	695	1,952
Bonuses	–	–
Pension scheme contributions	31	9
	<u>750</u>	<u>1,961</u>
	<u>750</u>	<u>2,006</u>

The remuneration of the above directors fell within the following band is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	<u>2</u>	<u>5</u>

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### (a) Directors' remuneration (continued)

The two executive directors received individual emoluments (fees, salaries and allowances, bonuses, pension scheme contributions) of approximately HK\$475,000 and HK\$275,000, respectively for the year ended 30 June 2004.

The three executive directors received individual emoluments (fees, salaries and allowances, bonuses, pension scheme contributions) of approximately HK\$856,000, HK\$585,000 and HK\$520,000, respectively for the year ended 30 June 2003.

The two non-executive directors did not receive any emoluments (fees) for the year ended 30 June 2004.

The two non-executive directors received individual emoluments (fees) of approximately HK\$30,000 and HK\$15,000 respectively for the year ended 30 June 2003.

There was no arrangement under which a director waived or agreed to waive any remuneration 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.

### (b) Five highest paid employees

The Company has only 4 staffs including the directors during the year. The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2003: two) non-director highest paid employee are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	92	449
Pension scheme contributions	8	9
	<u>100</u>	<u>458</u>

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### (b) Five highest paid employees (continued)

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

## 8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year (2003: Nil).

The amounts of taxation credited to the income statement represent:

	2004	2003
	HK\$'000	HK\$'000
Hong Kong Profits tax		
– over provision in respect of prior year	<u>-</u>	<u>316</u>

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 8. TAXATION (continued)

Reconciliation between tax expense and accounting loss at applicable tax rate:

	2004		2003	
Loss before tax	<b>(10,740)</b>		(23,094)	
Tax at applicable tax rate	<b>(1,880)</b>	<b>(17.5%)</b>	(4,041)	(17.5%)
Estimated tax effect of income and expenses not taxable or deductible in determining profits tax	<b>1,622</b>	<b>15.1%</b>	3,528	15.3%
Estimated tax effect of tax loss not recognised	<b>258</b>	<b>2.4%</b>	513	2.2%
Over-provision in prior year	-	-	(316)	(1.4%)
Tax charges	-	-	(316)	(1.4%)

At the balance sheet date and for the year then ended, there was no material unprovided deferred tax assets or liabilities.

## 9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$26,552,000 (2003: net loss of HK\$4,169,000).

## 10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$10,740,000 (2003: HK\$22,604,000) and on the weighted average number of 415,000,000 (2003: 415,000,000) ordinary shares in issue during the year.

The diluted loss per share has not been presented as the outstanding options had an anti-dilutive effect on the basic loss per share for both years.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 11. FIXED ASSETS

### Group

	<b>Computer equipment</b> HK\$'000	<b>Furniture, fixtures, motor vehicles and equipment</b> HK\$'000	<b>Total</b> HK\$'000
Cost:			
At 1 July 2003	990	1,777	2,767
Attributable to a subsidiary de-consolidated	(898)	(1,416)	(2,314)
Assets written off	–	(196)	(196)
<b>At 30 June 2004</b>	<b>92</b>	<b>165</b>	<b>257</b>
Accumulated depreciation:			
At 1 July 2003	427	443	870
Charge for the year	9	72	81
Attributable to a subsidiary de-consolidated	(344)	(350)	(694)
<b>At 30 June 2004</b>	<b>92</b>	<b>165</b>	<b>257</b>
Net book value:			
<b>At 30 June 2004</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 30 June 2003	563	1,334	1,897

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 12. INTANGIBLE ASSETS

### Group

	<b>Computer software</b> HK\$'000
Cost:	
At 1 July 2003 and at 30 June 2004	10,411
Accumulated amortisation and impairment:	
At 1 July 2003 and at 30 June 2004	10,411
Net book value:	
<b>At 30 June 2004</b>	<b>-</b>
At 30 June 2003	-

## 13. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Unlisted investments, at cost	<b>5,008</b>	5,008
Amount due from a subsidiary	<b>47,527</b>	48,155
Amount due to a subsidiary	-	(56)
	<b>52,535</b>	53,107
Provision for impairment	<b>(39,500)</b>	(14,500)
	<b>13,035</b>	38,607

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 13. INTERESTS IN SUBSIDIARIES (continued)

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

Particulars of the Company's subsidiaries as at 30 June 2004 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cyber World Technology Limited	British Virgin Islands/ Hong Kong	US\$102	100	–	Investment holding and provision of information technology contract services
Beijing Spatial Port Technology Ltd. *	PRC	HK\$16,000,000	–	100	Provision of information technology contract services and software distribution
Xi'an Giahe Information Consultation Industry Co., Ltd ("Xi'an Giahe") *	PRC	RMB1,250,000	–	52	Provision of information technology contract services
Changsha Tungbei Spatial Technology Co., Ltd *	PRC	RMB1,000,000	–	80	Provision of information technology contract services

\* During the year ended 30 June 2004, these subsidiaries were de-consolidated from the consolidated financial statements of the Group due to inability of the Company in controlling the subsidiaries' activities. For further details, please refer to Note 19 to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 14. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>859</b>	859
Goodwill on acquisition	<b>3,169</b>	3,169
Loans to associates	<b>3,273</b>	3,273
Less: Impairment loss on investments in associates	<b>(7,301)</b>	–
	<u>–</u>	<u>7,301</u>

The loans to associates were unsecured, interest free and not repayable within one year.

Particulars of the associates as at 30 June 2004 are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable the Group	Principal activities
Beijing Cityonmap Technology Co., Ltd	Corporate	PRC	35	Development and sales of personal digital assistant
Jingzhou Jingchu Spatial Technology Co., Ltd	Corporate	PRC	37.5	Dormant
Wuhan GIS Information Technology Ltd. Corp.	Corporate	PRC	25	Provision of information technology contract services

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 14. INTERESTS IN ASSOCIATES (continued)

<b>Goodwill</b>	HK\$'000
On acquisition	5,088
<b>Accumulated amortisation and impairment:</b>	
At 1 July 2003	1,919
Impairment loss recognised during the year	3,169
<b>At 30 June 2004</b>	<b>5,088</b>
<b>Net book value:</b>	
<b>At 30 June 2004</b>	<b>-</b>
At 30 June 2003	3,169

Full provision has been made for impairment loss on the investments in associates during the year as, in the opinion of directors, no economic benefits were generated to the Company.

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## 15. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Merchandise for sale	-	677

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 16. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 1 month, extending up to 2 months for major customers.

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 1 month	-	-
1 to 2 months	-	-
Over 2 months	-	24
	<u>-</u>	<u>24</u>

## 17. SHARE CAPITAL

### Share

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	<b>80,000</b>	80,000
	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
415,000,000 ordinary shares of HK\$0.10 each	<b>41,500</b>	41,500
	<u>41,500</u>	<u>41,500</u>

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 17. SHARE CAPITAL (continued)

### Share Option

- (a) The Company adopted a share option scheme (the “Share Option Scheme”) on 14 May 2001 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Under the Share Option Scheme, the Company may grant options to the executive directors and employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from the date.

Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options.

The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange’s daily quotation sheet on the date of offer of the options; (ii) the average of the closing prices of the shares on GEM as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and the Pre-IPO Share Options Scheme, as described below, shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

No option was granted by the Company under the Share Option Scheme since its adoption.

## 17. SHARE CAPITAL (continued)

### Share Option (continued)

- (b) Pursuant to a written resolution of the sole shareholder of the Company dated 4 May 2001, the Company also adopted the Pre-IPO Share Option Scheme. The terms of the Pre-IPO Share Option Scheme are substantially the same as those under the Share Option Scheme except that:
- (1) the subscription price is HK\$0.60;
  - (2) the aggregate number of shares subject to the Pre-IPO Share Option Scheme is 40,000,000;
  - (3) the grantees eligible for the options include employees who are not in full-time employment, independent non-executive directors and consultants and advisers to the Group; and
  - (4) the option holders will be entitled to exercise (i) one-third of the options after the expiry of two years from 1 June 2001; (ii) one-third of the options after the expiry of three years from 1 June 2001; and (iii) the remaining options after the expiry of four years from 1 June 2001.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 18. RESERVES

### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002	16,288	7,906	(20,984)	3,210
Loss for the year	–	–	(22,604)	(22,604)
At 30 June 2003 and at 1 July 2003	16,288	7,906	(43,588)	(19,394)
Loss for the year	–	–	(10,740)	(10,740)
<b>At 30 June 2004</b>	<b>16,288</b>	<b>7,906</b>	<b>(54,328)</b>	<b>(30,134)</b>
Reserves retained by:				
Company and subsidiaries	16,288	7,906	(53,860)	(29,666)
Associates	–	–	(468)	(468)
<b>At 30 June 2004</b>	<b>16,288</b>	<b>7,906</b>	<b>(54,328)</b>	<b>(30,134)</b>
Company and subsidiaries	16,288	7,906	(43,120)	(18,926)
Associates	–	–	(468)	(468)
At 30 June 2003	16,288	7,906	(43,588)	(19,394)

The Group's contributed surplus represents the differences between the aggregate of the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the reorganisation in May 2001 and the nominal value of the Company's shares issued in exchange therefor.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 18. RESERVES (continued)

### Company

	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 July 2002	16,288	4,998	(20,538)	748
Loss for the year	–	–	(4,169)	(4,169)
At 30 June 2003 and at 1 July 2003	16,288	4,998	(24,707)	(3,421)
Loss for the year	–	–	(26,552)	(26,552)
<b>At 30 June 2004</b>	<b>16,288</b>	<b>4,998</b>	<b>(51,259)</b>	<b>(29,973)</b>

In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the reorganisation in May 2001 and the nominal value of the shares issued by the Company.

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# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 19. DE-CONSOLIDATED OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Fixed assets	1,620	–
Inventories	677	–
Trade receivables	24	–
Prepayment, deposits and other receivables	2,866	–
Cash and bank balances	253	–
Tax recoverable	68	–
Other payables and accrued liabilities	(4,190)	–
Minority interests	(49)	–
	<u>1,269</u>	<u>–</u>
Reclassification to subsidiary not consolidated	<u>1,269</u>	<u>–</u>
Cash and bank balances de-consolidated	<u>253</u>	<u>–</u>

During the year, Beijing Spatial Port Technology Ltd., Xi'an Giahe Information Consultation Industry Co., Ltd and Changsha Tungbei Spatial were de-consolidated from the Company's consolidated financial statements due to inability to control the subsidiaries' activities. In the opinion of the directors, the investments in these subsidiaries were impaired. As a result, full provision has been made on the amount of the Group's share of net assets in these subsidiaries based on their unaudited financial statements as at 30 June 2003.

The subsidiary de-consolidated during the year did not have any significant effect on the Group's cash flows for the year ended 30 June 2004.

## 20. MAJOR NON-CASH TRANSACTIONS

During the year ended 30 June 2003, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a banking facility granted to Well Pacific Investments Limited ("WPIL"), an investee company of a shareholder of the Company. The bank has exercised its right to uplift the pledged deposit for an amount of HK\$10,068,780 to settle the overdue borrowings by WPIL.



# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 21. PLEDGE OF ASSETS

During the year ended 30 June 2003, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a facility granted to Well Pacific Investments Limited (“WPIL”), an investee company of a shareholder of the Company. A shareholder of WPIL (the “guarantor”) had entered into a guarantee agreement with the Group to secure such arrangement. In the previous year on 28 February 2003, the bank has exercised its right to uplift the pledge deposit for an amount of HK\$10,068,780 to settle the overdue borrowings by WPIL. The Group has taken legal proceedings against the guarantor for the sum of HK\$10,000,000, together with related interest and legal cost. Under this circumstance, the amount of HK\$10,068,780 has been included in other receivables as at 30 June 2004.

## 22. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. All leases for properties will be expired within one year.

	Group	
	2004 HK\$'000	2003 HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable:		
Within one year	-	221

The Group and the Company had no significant capital and operating lease commitments at 30 June 2004.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 23. MATERIAL RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of Group's business:

	Group	
	2004 HK\$'000	2003 HK\$'000
Sales of product to associate (Note)	-	42

Note:

The directors considered that the sales to associates were made on basis determined by both parties.

## 24. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 December 2004.