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**ANGELS TECHNOLOGY COMPANY LIMITED**

**英君技術有限公司**

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

**Half Yearly Report  
for the six months ended 30 June 2002**

#### **CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE**

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## HIGHLIGHTS FOR THE HALF YEARLY PERIOD

- Turnover of the Group for the six months ended 30 June 2002 was approximately HK\$559,000, representing a decrease of approximately 90 per cent. as compared with the corresponding period in 2001.
- The Group recorded a net loss of approximately HK\$8,272,000 for the six months ended 30 June 2002.
- The Directors do not recommend payment of a dividend for the six months ended 30 June 2002.

## RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended and the six months ended 30 June 2002, together with the unaudited comparative figures for the respective periods in 2001 are as follows:

### Condensed Consolidated Profit and Loss Account – unaudited

	Notes	Six months ended 30 June		Three months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	559	5,840	151	4,122
Cost of services		(439)	(4,690)	(125)	(3,310)
Gross profit		120	1,150	26	812
Other revenue		51	6	8	–
Distribution costs		(2,036)	(873)	(1,296)	(437)
Administrative expenses excluded depreciation and amortization		(5,775)	(4,419)	(2,542)	(2,468)
Depreciation of fixed assets		(225)	(382)	(82)	(228)
Amortization of goodwill		(159)	–	(159)	–
Operating loss		(8,024)	(4,518)	(4,045)	(2,321)
Share of loss of an associated company		(248)	–	(248)	–
Taxation	3	–	–	–	–
Loss after taxation and attributable to shareholders		<u>(8,272)</u>	<u>(4,518)</u>	<u>(4,293)</u>	<u>(2,321)</u>
Loss per share – basic	5	<u>(4.47 cents)</u>	<u>(3.48 cents)</u>	<u>(2.26 cents)</u>	<u>(1.79 cents)</u>

No statement of recognized gains and losses is presented as the loss after taxation and attributable to shareholders of HK\$8,272,000 (2001: HK\$4,518,000) shown above is the only component.

## Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2002 HK\$'000 (Unaudited)	As at 31 December 2001 HK\$'000 (Audited)
Fixed assets	6	1,809	1,900
Goodwill	7	6,185	–
Investment in an associated company	8	7,808	–
Investment securities		467	467
Deposits for software development		6,215	6,215
Current assets			
Amounts due from customers for contract works	9	19,115	18,471
Trade receivables	10	3,067	4,680
Deposits, prepayments and other receivables		2,659	3,178
Cash and bank balances		3,241	12,814
		<u>28,082</u>	<u>39,143</u>
Current liabilities			
Receipt in advance		–	66
Trade payables	11	2,834	4,754
Accrued charges and other payables		4,446	5,542
		<u>7,280</u>	<u>10,362</u>
Net current assets		<u>20,802</u>	<u>28,781</u>
Total assets less current liabilities		<u>43,286</u>	<u>37,363</u>
Financed by:			
Share capital	12	19,200	18,000
Reserves	13	24,086	19,363
		<u>43,286</u>	<u>37,363</u>

## Condensed Consolidated Cash Flow Statement – unaudited

	Six months period ended 30 June 2002 HK\$'000
Net cash outflow from operating activities	(9,286)
Net cash inflow from returns on investments and servicing of finance	51
Net cash outflow from investing activities	(133)
Net cash outflow before financing	(9,368)
Net cash outflow from financing	(205)
Decrease in cash and cash equivalents	(9,573)
Cash and cash equivalents at 1 January 2002	12,814
Cash and cash equivalents at 30 June 2002	<u>3,241</u>
Analysis of balances of cash and cash equivalents:	
Cash and bank balances	<u>3,241</u>

### *Significant non-cash transaction*

During the period, the company acquired an associated company and the consideration of HK\$14,400,000 was settled by way of the issue and allotment of 12,000,000 shares of the Company at HK\$1.20 per consideration share.

*Notes:*

#### **1. Group reconstruction and basis of preparation**

The Company was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liabilities under the Companies Law (revised) of the Cayman Islands.

On 16 August 2001, pursuant to a group reconstruction (the "Reconstruction") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group. Details of the Reconstruction are set out in the Company's prospectus (the "Prospectus") dated 22 August 2001. The Company's shares were listed on GEM of the Stock Exchange on 30 August 2001.

The Reconstruction, which involved companies under common control, has been reflected in the accounts of the Group, which comprised the Company and its subsidiaries, as a continuing group. Accordingly, the consolidated results have been prepared in the merger accounting basis as if the Company had been the holding company of the other companies comprising the Group throughout the six months ended 30 June 2001 rather than from the date on which the Reconstruction was completed.

The condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirement set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2001, except the intangible assets as described below:

#### *SSAP 30: Business combinations*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiaries, jointly controlled entity or associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortized using the straight-line method over its estimated useful life. Goodwill is amortized over ten years.

#### **2. Turnover**

The Group is principally engaged in the provision of transportation technology solution in the People's Republic of China (the "PRC"). Turnover represents total value of services rendered to customers from long-term system integration contracts net of value-added tax and sales tax.

During the period, the Group has operated in the PRC in one business segment and provided a single service. Accordingly, no further segment analysis is presented.

**3. Taxation**

- i. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for six months period ended 30 June 2002.
- ii. The subsidiary, Beijing Angels Communications Technology Co., Ltd ("Beijing Angels") and Angels ITS (Guangzhou) Co., Ltd. ("Guangzhou Angels"), both operating in the PRC, are subject to an income tax rate of 33% on their taxable profits in accordance with the Income Tax Law in the PRC. Pursuant to a renewal notice issued by Local Taxation Bureau of Beijing Haidian District on 14 November 2000, Beijing Angels is entitled to a full exemption from PRC income tax from the years 2000 to 2002 and subsequently a reduced in the income tax rate of 7.5% for the years from 2003 to 2005.
- iii. Guangzhou Angels was approved as a "newly-established advance and new technology enterprise" on 19 September 2000 and is therefore entitled to a reduced tax rate of 15%. Guangzhou Angels has no assessable profits for the six months period ended 30 June 2002.
- iv. There was no material unprovided deferred taxation for the period.

**4. Dividend**

The Directors do not recommend payment of a dividend for the six months ended 30 June 2002 (2001: Nil).

**5. Loss per share**

Basic loss per share for the six months and three months ended 30 June 2002 are calculated based on the Group's loss attributable to the shareholders of HK\$8,272,000 and HK\$4,293,000 respectively and on the weighted average number of 184,972,376 shares and 189,890,110 shares respectively in issue during period.

The comparative loss per share for the six months and three months ended 30 June 2001 are calculated based on the Group's loss attributable to the shareholders of HK\$4,518,000 and HK\$2,321,000 respectively and an aggregate of 130,000,000 shares, comprising 1 share issued at HK\$0.10 on 7 April 2000 immediately after the incorporation of the Company together with 9 shares issued at HK\$0.10 each on 7 June 2000 and 129,999,990 shares issued at HK\$0.10 on 16 August 2001 upon completion of Reconstruction, which were deemed to have been issued since 10 January 2000, the date of incorporation of Angels Intelligent Transportation Systems Company Limited and Angels Logistics Systems (Guangzhou) Company Limited.

Diluted loss per share was not presented because there were no potential dilutive ordinary shares in existence during the six months period ended 30 June 2002 (period ended 2001: Nil).

**6. Fixed assets**

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As 1 January 2002	3,655	(1,755)	1,900
Addition	134	–	134
Depreciation	–	(225)	(225)
	<u>3,789</u>	<u>(1,980)</u>	<u>1,809</u>
At 30 June 2002	<u>3,789</u>	<u>(1,980)</u>	<u>1,809</u>

**7. Goodwill**

	<b>30 June 2002</b>
	<i>HK\$'000</i>
Acquisition of an associated company	6,344
Amortisation	(159)
	<u>6,185</u>
At 30 June 2002	<u>6,185</u>

In April 2002, the Group acquired 40% of the equity interest in CTIA VSAT Network Limited ("CTIA") for a total consideration of HK\$14.4 million. CTIA is an investment holding company and its principal asset is the holding of 60% of the equity interest in Beijing Asia Pacific East Communication Network Limited ("APECN"). APECN is principally engaged in the research and development of satellite communication technology solutions, the provision of the related consultancy and technical support services and system integration services. The Group is able to apply APECN's satellite communication technology and related solutions to develop road communication network.

#### 8. Investment in an associated company

	<b>30 June 2002</b>
	<b>HK\$'000</b>
Share of net assets	320
Loan to an associated company	7,488
	<u>7,808</u>

#### 9. Amounts due from customers for contract works

	<b>30 June 2002</b>	31 December 2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Contracts in progress at the balance sheet date:		
Cost incurred to date recognized profits to date	38,970	38,363
Less: progress billing	<u>(19,855)</u>	<u>(19,892)</u>
	<b>19,115</b>	<b>18,471</b>
Represented by:		
Gross amounts due from customers for contract works	19,115	18,471
Gross amounts due to customers for contract works	<u>—</u>	<u>—</u>
	<u><b>19,115</b></u>	<u><b>18,471</b></u>

At 30 June 2002, there were retention monies amounting to HK\$3,738,000 (equivalent to Rmb 4,000,000) included in the amounts due from customers for contract work.

#### 10. Trade receivables

As 30 June 2002, the aging analysis of trade receivable is as follow:

	<b>30 June 2002</b>	31 December 2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current to 90 days	45	1,223
91 to 180 days	294	—
181 to 270 days	1,223	—
271 to 360 days	—	4,957
Over 360 days	<u>3,005</u>	<u>—</u>
	4,567	6,180
Less: provision for doubtful debts	<u>(1,500)</u>	<u>(1,500)</u>
	<u><b>3,067</b></u>	<u><b>4,680</b></u>

The credit term granted to customers vary and are generally the result of negotiations between the individual customers and the Group. Customers are generally required to pay at various intervals over the life of the project.

**11. Trade payables**

As 30 June 2002, the aging analysis of trade payable is as follow:

	<b>30 June 2002 HK\$'000</b>	31 December 2001 HK\$'000
Current to 90 days	7	1,138
91 to 180 days	–	1,609
181 to 270 days	274	–
271 to 360 days	1,609	–
Over 360 days	944	2,007
	<u>2,834</u>	<u>4,754</u>

**12. Share capital**

	<b>Authorised Ordinary shares of HK\$ 0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2001 and 30 June 2002	<u>1,200,000,000</u>	<u>120,000</u>
	<b>Issued and fully paid Ordinary shares of HK\$ 0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2001	180,000,000	18,000
Issue of shares		
– as consideration shares for acquisition of a 40% interest in CTIA	<u>12,000,000</u>	<u>1,200</u>
At 30 June 2002	<u>192,000,000</u>	<u>19,200</u>

On 11 April 2002, the Company entered into a conditional agreement in respect of the acquisition of a 40% interest in the issued capital of CTIA. The acquisition was completed on 16 April 2002 and the consideration of HK\$14,400,000 was settled by way of the issue and allotment of 12,000,000 shares of the Company at HK\$1.20 per consideration share, representing approximately 6.67% of the then existing share capital and approximately 6.25% of the enlarged issued share capital of the Company.

The issue price of HK\$1.20 per consideration share represented a discount of approximately 10.45% to the closing price of HK\$1.34 per share on 11 April 2002, being the date of the agreement and a discount of approximately 8.40% to the average closing price of HK\$1.31 per share over the last ten trading days up to and including 11 April 2002.

All shares issued rank pari passu with the then existing shares in issue in all respects.

**13. Movements in reserves**

Movements in the reserves of the Group during the six months ended 30 June 2002 are summarized as follows:

	<b>Share Premium HK\$'000</b>	<b>Capital reserve HK\$'000</b>	<b>Exchange reserve HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2001	20,810	(1,628)	(144)	325	19,363
Premium arising from new issue as consideration shares	13,200	–	–	–	13,200
Expenses in connection with issue of new shares	(205)	–	–	–	(205)
Loss for the period	–	–	–	(8,272)	(8,272)
At 30 June 2002	<u>33,805</u>	<u>(1,628)</u>	<u>(144)</u>	<u>(7,947)</u>	<u>24,086</u>

## MANAGEMENT DECISION AND ANALYSIS

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The Group is principally engaged in the provision of transportation technology solutions in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways in the PRC.

### Financial review

The Group recorded a turnover of approximately HK\$559,000 for the six months ended 30 June 2002, representing a decrease of approximately 90 per cent. as compared with the corresponding period in 2001. A net loss of approximately HK\$8,272,000 was recorded for the six months ended 30 June 2002 compared with a net loss of approximately HK\$4,518,000 compared with for the six months ended 30 June 2001. The decrease in turnover was principally due to the decrease in number and size of projects handled by the Group. Currently, the Group is undertaking the Hubehaoto-Baotou expressway project and it is expected that the project will be completed and open to traffic in late 2002.

This year, the number of companies participating in mechanical and electrical transportation projects and transportation technology solutions is increasing. As a result, the bid price became comparatively low recently, and the business benefit of the enterprises has gone down accordingly. Consequently, the profit of the Group has been influenced. The development of other new businesses and products needs a process of introduction into the market. The businesses and products of this kind can hardly bring profit in a short period of time.

### Liquidity and capital resources

The Group did not have any charges on its assets during the period report. The current ratio of the Group was 3.85 as at 30 June 2002 compared to 3.78 as at 31 December 2001. The gearing ratio, defined as the ratio of long-term debt to total assets, was zero for 30 June 2002 and 31 December 2001. The liquidity ratio was 1.2 as at 30 June 2002 compared to 1.9 as at 31 December 2001.

The Group's sales and purchase are mainly transacted in Renminbi and the books are recorded in Hong Kong dollars. Since the exchange rate fluctuation between Hong Kong dollars and Renminbi has not been material, the foreign exchange risk was very low and no hedging had been undertaken.

As at 30 June 2002, the Group had outstanding contracted capital commitments amounting to not more than HK\$4 million in respect of purchase of materials for projects and software development costs. The Group did not have any material contingent liabilities as at 30 June 2002.

During the period, there were no changes in the Company's authorised share capital and the details of movements of the Company's issued and fully paid share capital are set out in note 12.

### Employees

The Group employed 76 full time employees which included 71 members of staff employed in the PRC as at 30 June 2002. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances and discretionary options issued based on their contribution to the Group.

### Material acquisition

In April 2002, the Company acquired a 40% equity interest in CTIA and then the Company indirectly acquired a 24% equity interest in APECN. APECN is principally engaged in the research and development of satellite communication technology solutions, the provision of the related consultancy and technical support services and system integration services. Moreover, APECN also runs multimedia



data exchange center, building program transmission platform and completion of simulated film resource digitalization works. The Group is able to apply APECN's satellite communication technology and related solutions to develop road communication network for its expressway networks.

Other than the above, the Group has no material acquisition or disposal of subsidiaries and affiliate companies during the six months ended 30 June 2002. It has no plans for material investment or capital assets other than those set out in the Prospectus.

### **Business review**

The Group will continue to expand transportation engineering market and actively promote the sale of products. In terms of transportation engineering, up to the date of the interim report, the Group has obtained the project in respect of the toll collection system on Yuxi-Yuanjiang expressway, the application software for the third-class toll collection system on Dali-Baoshan expressway and the contract of license plate identification systems.

The Group is starting other businesses actively. It contacts the customers in vehicle license identification system, concierge access control system, automatic control system for buildings, intelligence identification system and city ITS system. The Group set up vehicle license identification system along the third ring road for the management of Beijing Public Security Bureau of Traffic Administration and monitoring the time and average speed of vehicles on the third ring road. In addition, the Group has obtained the project of the intelligence identification system in the Training Department of the State Physical Culture Administration, the development of which is expected to be completed in September 2002. The signing of this project is a new milestone of the Group.

The program design for freight logistic management information system has been basically finished. The development of the system is in process. Since the partner's preparatory work on Guangzhou Logistic Center is slower than expected, the progress of this project has been delayed.

Currently, the market of vehicle license identification system is growing swiftly with good prospects. So far the customers who have tested our products include Fujian Provincial Expressway Administration, Jilin Provincial Traffic Administration, Chengdu Municipal Public Security Bureau of Sichuan Province, certain property management area in Langfang, Hebei Province, Yuxi-Yuanjiang Expressway Construction Headquarters in Yunnan Province, and conference vehicle management project of the State Physical Culture Administration, etc. The Group predicts that the vehicle license identification system and relevant technologies have potential for development.

### **Prospects**

In June 2002, the Group and Qualcomm Inc. formed a strategic cooperation and used Qualcomm Inc.'s CDMA wireless communication network technology – gpsOne™, with a view to assisting an operator of CDMA wireless telecommunication networks in the PRC in the deployment of location based services. This technology possesses more advantages than GPS, unitary GSM and GPS/GSM. Consequently, the ultimate customers who need positioning service (e.g. public security, traffic management, logistic and motorcade) have great interest, which lays an extensive customer foundation for the future market popularity of this technology.

With the entry into the World Trade Organization and the hosting of the 2008 Olympic Games in Beijing, the PRC has entered into a speedy development stage. The Directors are clearly aware of the challenges at present. The increasingly fierce competition makes it necessary for the Group to be dedicated to developing its business and in order to bring satisfactory reward to its shareholders through exploring its product sales and other rapidly growing business.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Key Business objectives for the period ended 30 June 2002

#### *Transportation technology solutions*

- Complete systems design for the auto-pass toll collection system on the Guangzhou Huanan Expressway
- Complete the Nian Bei Expressway project
- Complete the system design of transportation technology solutions for the 11 expressways in Guangdong Province

#### *Freight logistics management information system*

- Complete the implementation of the logistics management system on one truck depot in Guangzhou

#### *Research and development*

- Research on small-sized SDH system
- Develop "B&A Expressway Toll Collection System" on IBM AS/400 platform

#### *Resources, employment and administration*

- recruit one professional with strong backgrounds in logistics management Use of proceeds from the issuing of new shares

### Actual Business Progress

Initial system architectural design work has been finished. The Group has conducted a detailed analysis of the customer's requirements and commenced to produce details system design. Currently, the Group develops prototyping, benchmarking and simulation to support the system design.

Not yet achieved. The customer has a lot of variations in the project specifications and details of the system requirement. The project is in the stage of discussion on the technical amendments.

System design has commenced.

Due to the slower-than-expected path of setting up the truck depot in Guangzhou, the development of the logistic management system has slowed down until the efficiency of setting up infrastructure and truck depots in Guangzhou has been improved.

Small-sized SDH System is under development. Due to the rapid development of wireless data transmission technology, the Group is doing research on applying the 2.5G technology to the enhancement of the Group's small-sized SDH system and other product features.

The System operated on IBM AS/400 platform has been successfully implemented on the Kunming Yuxi expressway project.

The Group has launched the upgraded product under the name "B&A Expressway Toll Collection System".

Due to the delay in setting up the Guangzhou logistics center, the recruitment of a professional in logistics management is suspended.

Three new staff for the Group's research and development team have been recruited.

## USE OF PROCEEDS FROM THE ISSUING OF NEW SHARES

The net proceeds from the public listing had been applied in the following areas:

	<b>Proposed</b> <i>HK\$ million</i>	<b>Actual</b> <i>HK\$ million</i>
Transportation technology solutions	1.5	2.0
Freight logistic management information system	1.5	0.5
Research and development	1.0	1.4
Resources, employment and administration	0.2	0.1
	<u>4.2</u>	<u>4.0</u>

Reasons for material differences between planned business objective and actual business progress are set out below:

### Freight Logistic Management Information System

Except that the Group and a company have entered into a cooperative agreement in respect of the development of a logistic information system in Guangzhou, the Group has slowed down the development of freight logistic management information system due to the fact that the establishment of the logistics center and truck depots in Guangzhou are behind schedules.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, according to the register required to be kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Directors and their respective associates were as follows:

### (I) Ordinary Shares

Name	Notes	Number of Shares			
		Personal interest	Family interest	Corporate interest	Other interest
Mr. Yan, Daniel X.D.	1	N/A	N/A	81,900,000	N/A
Mr. Lau, Kim Andrew	2	N/A	N/A	35,100,000	N/A

Notes:

- These Shares are held by Sebastian International Holdings Limited ("Sebastian"), a company incorporated in the British Virgin Islands. Mr. Yan, Daniel X.D. is the sole shareholder and the sole director of Sebastian.
- These Shares are held by Mitac International Holdings Limited ("Mitac"), a company incorporated in the British Virgin Islands. Mr. Lau, Andrew Kim is the sole shareholder and the sole director of Mitac.

**(II) Share options**

Pursuant to the Company's Share Option Scheme adopted by the Company on 16 August 2001, the following Directors have personal interests in options to subscribe for shares in the Company which have been granted to them as follows:

<b>Name of director</b>	<b>Number of options</b>	<b>Exercise price per share HK\$</b>	<b>Date of grant</b>
Yan Daniel X.D.*	1,500,000	1.28	28 March 2002
Lau Andrew Kim*	1,000,000	1.28	28 March 2002
Zhu Quan*	1,000,000	1.28	28 March 2002
Shek Ying Christine*	400,000	1.28	28 March 2002

\* executive director of the Company

The period for exercising the options is from 10 August 2002 to 9 August 2011 (both dates inclusive) (first tranche of 50% from 10 August 2002 and the remaining tranche of 50% from 10 August 2003).

As at 30 June 2002, none of the options granted to Directors had been exercised or cancelled.

Save as disclosed above, as at 30 June 2002, none of the Directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

**SHARE OPTION SCHEME**

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Pursuant to a share option scheme adopted by the Company on 16 August 2001, the Directors may, at their discretion, offer options to full-time employees of the Group and the Directors to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

As at 30 June 2002, options comprising a total of 8,288,000 underlying shares were granted to employees (including executive directors) of the Group at an exercise price of HK\$1.28 per share with the option period from 10 August 2002 to 9 August 2011 (both dates inclusive) (1st tranche of 50% from 10 August 2002 and the remaining tranche of 50% from 10 August 2003).

No options have been exercised, cancelled or lapsed during the period from the date of grant to 30 June 2002.

## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed above, as at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10 per cent. or more of the Company's issued share capital.

Name	Notes	Number of Shares	Percentage of holding (%)
Sebastian	1	81,900,000	42.7
Mitac	2	35,100,000	18.3

*Notes:*

1. Sebastian is a company incorporated in the British Virgin Islands with limited liabilities, and wholly owned by Mr. Yan Daniel X.D, the Chairman and an executive Director of the Company.
2. Mitac is a company incorporated in the British Virgin Islands with limited liabilities, and wholly owned by Mr. Lau Andrew Kim, an executive Director of the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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As at 30 June 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

## COMPETING INTEREST

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None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

## SPONSOR'S INTEREST

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Pursuant to a sponsor's agreement dated 21 August 2001 entered into between the Company and DBS Asia Capital Limited ("DBS Asia"), DBS Asia is entitled to receive a fee in respect of the appointment by the Company as the sponsor of the Company as required under GEM Listing Rules for the period from 30 August 2001 to 31 December 2003.

Save as disclosed herein, none of DBS Asia, its directors, employees or associates (as referred to in Rules 6.35 and 11.04 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 June 2002.

## AUDIT COMMITTEE

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The Company established an audit committee on 16 August 2001 comprising the independent non-executive Directors, Mr. Yang Xiaoping and Mr. Zhao Ming. The written terms of reference of the audit committee comply with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee of the Board will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group.

## COMPLIANCE WITH BOARD PRACTICES AND PROCEDURES

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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 for the period under review.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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During the six months ended 30 June 2002, the Company has not redeemed any of its shares. Neither the Company or its subsidiaries purchased or sold any of the Company's shares.

By order of the Board  
**Daniel X.D. Yan**  
*Chairman*

14 August 2002, Hong Kong