



DATASYS TECHNOLOGY HOLDINGS LIMITED

迪斯數碼科技集團有限公司 *

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2002

* *For identification only*

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This report, for which the directors of Datasys Technology Holdings Limited collectively and individually accept full 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 for the purpose of giving information with regard to Datasys Technology Holdings Limited. The directors of Datasys Technology Holdings Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— 1. the information contained in this report 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 report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

The Group achieved total revenue of approximately HK\$56.1 million for the six months ended 30th June 2002, representing an increase of 27.2% over the corresponding period of 2001.

Profit attributable to shareholders for the same period increased to HK\$7.1 million as compared with profit attributable to shareholders of approximately HK\$4 million for the corresponding period of 2001, representing an increase of approximately 78% over the corresponding period of 2001.

Earnings per share for the same period increased to HK cents of 0.89 as compared with profit per share of HK cents 0.5 for the corresponding period of 2001.

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2002.

FINANCIAL REVIEW

The turnover of Datasys Technology Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30th June 2002 increased by approximately 12% and 27% to approximately HK\$41 million and HK\$56.1 million respectively as compared to the corresponding period in 2001. The growth in turnover during the period of six months ended 30th June 2002 (the “Review Period”) was mainly attributable to the significant increase in revenue by approximately 135% from the provision of IT contract services from approximately HK\$4 million to HK\$9.4 million. Gross profit margin for the six months ended 30th June 2002 maintained at approximately 34% as compared with the same period in 2001. Approximately 81% of the Group’s gross profit was generated from its system development and integration.

There is a seasonal factor affecting the sales of the Group. As the majority of the Group’s clients are state-owned enterprises, according to the experience of the directors of the Company (the “Directors”), the implementation of their business plans were often postponed to the second half of the year due to the timing of the allocation of resources by the central government. Therefore, the Group will normally secure contracts in the second half of the year and the projects will be implemented at the end of the year or the coming year.

During the Review Period, significant resources were devoted to the listing process of the Company. In the 2nd half of 2002, the Group will focus on developing further its business and expects to achieve a significant improvement in performance as a result of completion of the reform of Electric Power Station and the high seasonal impact.

BUSINESS REVIEW

During the six months ended 30 June 2002, the Group has made significant progress in its main business. The turnover and profit attributable to shareholders from the industry solutions and system integration increased by approximately 27% and 78% as compared with the same period of last year. This was primarily due to the successful expansion of the target market of the Group in the PRC.

During the Review Period, the Group continually developed and enhance its Power Plant MIS system and the WEB based system, which brought more functionality's and user-friendly interfaces to the end users. As a result, the Group's turnover increased to RMB56.1 million during the Review Period. Moreover, the research and development team had finished the feasibility study of the power plant ERP system, which is expected to be launched to the market in the coming months. In addition, the Group and CLP IT Solutions Limited ("CLP") were in the progress of working out a schedule to launch a ERP system for the power industry in the PRC. The Group expected that, with the combination of the professional management expertise from CLP and the Group's IT experience in the PRC, the Group's premier leading position in the power industry in the PRC can be further strengthened.

With the completion of the reform of the power industry in the PRC, the power trading system developed by the Group becomes a very keen project to each provincial government in the PRC. During the Review Period, the Group had successfully implemented three consultation projects of such power trading system. As one of the market leader in the power industry in the PRC, we continued to enhance the existing products of the Group and incorporate those functions as the deployed standards for such power trading system in the PRC.

For the public security sector in the PRC, the Group won the pilot projects of "Golden Shield" both in Dalian City of the Liaoning Province and in the Hebei Province. Based on the management's estimation, the trial running period of the projects can be successfully completed before the end of this year. The successful implementation of these pilot projects will strengthen the position of the Group in the bidding of "Golden Shield" project in the remaining provinces of the PRC in the near future.

For the digital monitoring system, the Group had successfully developed a specific television monitoring program with the cooperation of the University of Public Security of China. The Group installed a sample system in Liaoyuan City of the Jilin Province and won a lot of honor from the Television Bureau and Public Security Bureau of Liaoyuan City of Jilin Province, respectively. According to the Bureau of the Broadcast and Television of China, each television station have to install a digital monitoring system in the coming future which is a very good business opportunity to the Group. On the other hand, the Group had introduced the digital monitoring system to the major financial institutions in the PRC, such as the China Construction Bank and the China Agriculture Bank. The management expected that there will be more and more business opportunities in these financial institutions in the near future.

In relation to the system integration business, the Group had made a lot of effort in the power industry and the public security industry in the PRC. Due to the good reputation of service and the accumulated customer base in the PRC, most of the existing customers have engaged the Group to provide maintenance or upgrading services for them.

BUSINESS OBJECTIVE REVIEW

As this interim report covers activities of the Group up to 30th June 2002 only, all business objectives stated under the section headed “Statement of business objectives” of the Company’s prospectus which was issued on 31st July 2002 are still in progress and no further update is applicable.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30th June 2002, the Group had net current assets of approximately HK\$94.4 million, representing a 32% increase from 31 December 2001, and which included cash and bank balances of approximately HK\$17 million, pledged bank deposits of approximately HK\$18.9 million and bank loans of approximately HK\$26.1 million.

Capital Structure

There have been no changes in the capital structure since the Company listed its shares on GEM on 16th August 2002.

Prospect for new business

Except for the products as described in the Prospectus and in the business review section, the Group did not have any other new products and services introduced.

Investment

During the six months ended 30th June 2002, the Group made no significant investments.

Acquisitions and Disposals

The Group made no material acquisitions or disposals during the six months ended 30th June 2002.

Employees

As at 30th June 2002, the Group employed 179 staff. The staff cost, including directors' emoluments, were approximately HK\$7.5 million for the six months ended 30th June 2002, as compared with approximately HK\$7 million for the corresponding period of the preceding financial year. The increase was mainly due to the annual pay rise for the employees.

Charge in Group Assets

With the exception of those changes set out in the Prospectus, there have been no significant charges in group assets.

Future plans for Investments or Capital Assets and Sources of Funding

With the exception of those plans set out in the Prospectus, the Group has no plans for significant investments or capital assets.

Gearing Ratio

As at 30th June 2002, the gearing ratio, short term bank loans over shareholders' equity, was approximately 27.4% as compared to approximately 35.3% as at 31st December 2001. The improvement was mainly attributable to the net proceeds of approximately HK\$14.4 million raised from the placing of shares to CLP in June 2002.

Exposure to fluctuations in exchange rates and any related hedges

The Directors will try to minimise the exchange rates risk of RMB by pledging foreign currency deposits against the RMB loan.

Details of contingent liabilities

Please refer to details as stated in the notes 14 — commitments and contingent liabilities for details.

CONSOLIDATED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Group for the six months and three months ended 30th June 2002 together with the unaudited comparative figures for the corresponding periods of 2001 as follows:

	<i>Notes</i>	Six months ended 30th June		Three months ended 30th June	
		2002 <i>(unaudited)</i> <i>HK\$'000</i>	2001 <i>(unaudited)</i> <i>HK\$'000</i>	2002 <i>(unaudited)</i> <i>HK\$'000</i>	2001 <i>(unaudited)</i> <i>HK\$'000</i>
Turnover	4	56,118	44,106	40,956	36,602
Cost of sales		<u>(37,340)</u>	<u>(28,653)</u>	<u>(27,252)</u>	<u>(23,158)</u>
Gross profit		18,778	15,453	13,704	13,444
Other revenue	4	1,089	282	866	282
Selling and distribution costs		<u>(3,419)</u>	<u>(4,684)</u>	<u>(1,762)</u>	<u>(2,733)</u>
Administrative expenses		<u>(7,115)</u>	<u>(5,922)</u>	<u>(2,734)</u>	<u>(3,224)</u>
Profit from operating activities	5	9,333	5,129	10,074	7,769
Finance costs	6	<u>(761)</u>	<u>(350)</u>	<u>(357)</u>	<u>(174)</u>
Profit before tax		8,572	4,779	9,717	7,595
Tax	7	<u>(957)</u>	<u>(508)</u>	<u>(1,194)</u>	<u>(884)</u>
Profit before minority interest		7,615	4,271	8,523	6,711
Less: Minority interests		<u>(524)</u>	<u>(284)</u>	<u>(601)</u>	<u>(460)</u>
Profit attributable to shareholders		<u>7,091</u>	<u>3,987</u>	<u>7,922</u>	<u>6,251</u>
Earnings per share — basic (cents)	9	<u>0.89</u>	<u>0.50</u>	<u>0.99</u>	<u>0.78</u>

CONSOLIDATED BALANCE SHEET

		At 30th June 2002 <i>HK\$'000</i> <i>(unaudited)</i>	At 31st December 2001 <i>HK\$'000</i> <i>(audited)</i>
NON-CURRENT ASSETS			
Fixed assets		3,785	4,965
Software development costs		1,370	1,370
		<u>5,155</u>	<u>6,335</u>
CURRENT ASSETS			
Due from Directors		13,881	13,609
Due from a related company		4,689	4,689
Inventories		17,525	7,448
Trade receivables	10	72,075	55,535
Prepayments, deposits and other receivables		27,989	20,886
Pledged bank deposits		18,907	15,995
Cash and cash equivalents		17,003	11,949
		<u>172,069</u>	<u>130,111</u>
CURRENT LIABILITIES			
Trade payables	11	4,439	4,083
Other payables and accruals		38,778	22,217
Deferred revenue		4,465	3,083
Tax payable		3,815	3,359
Bank loans	12	26,168	26,168
		<u>77,665</u>	<u>58,910</u>
NET CURRENT ASSETS		<u>94,404</u>	<u>71,201</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		99,559	77,536
MINORITY INTERESTS		<u>(3,961)</u>	<u>(3,437)</u>
		<u>95,598</u>	<u>74,099</u>
REPRESENTED BY:			
Combined shareholders' equity		<u>95,598</u>	<u>74,099</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	For the	
	six months ended	
	30th June	30th June
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
	(6,442)	385
NET CASH OUTFLOWS USED IN INVESTING ACTIVITIES	(2,912)	(8,516)
NET CASH INFLOW FROM FINANCING ACTIVITIES	14,408	12,150
	<u> </u>	<u> </u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,054	4,019
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,949	4,632
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	17,003	8,651
	<u> </u>	<u> </u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	17,003	8,651
	<u> </u>	<u> </u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share					Total
	Share capital	premium account	Retained profits	Reserve funds	Capital reserve	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
At 1st January 2001	200	37,188	7,818	1,541	7,236	53,983
Profit for the six months ended 30th June 2001	—	—	3,987	—	—	3,987
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30th June 2001	200	37,188	11,805	1,541	7,236	57,970
As at 1st January 2002	200	37,188	27,623	1,852	7,236	74,099
Issue of shares	14	14,394	—	—	—	14,408
Profit for the six months ended 30th June 2002	—	—	7,091	—	—	7,091
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 30th June 2002	214	51,582	34,714	1,852	7,236	95,598
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES ON THE UNAUDITED INTERIM REPORT:

1. Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 5th September 2000 under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the corporate structure of the Group in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16th August 2002, the Company became the holding company of the subsidiary companies now comprising the Group on 23rd October 2000. Further details of the Group Reorganisation are set out in the Prospectus.

2. Basis of presentation

The Group Reorganisation has been accounted for by the Company using merger accounting method in accordance with the Statement of Standard Accounting Practice (“SSAP”) No.2.127 “Accounting for Group Reconstruction”. The comparative figures for the three months and six months ended 30th June 2002 included the results of all companies involved in the Group Reorganisation which were assumed to have been in existence throughout the said periods or since their respective dates of incorporation/acquisition, where this is a shorter period.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

3. Principal accounting policies

The condensed combined interim financial statements have been prepared in accordance with SSAP 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The GEM Listing Rules.

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those disclosed in the Prospectus.

The condensed financial statements are unaudited but have been reviewed by the Audit Committee (as defined below).

4. Turnover and profit attributable to shareholders

a. *Turnover and revenue*

Turnover represents the net invoiced value of goods sold after allowances for returns, trade discounts and services rendered, excluding value added tax and business tax. All significant intra-group transactions have been eliminated on combination. An analysis of the Group's turnover and revenue with the comparative figures for the corresponding period in 2001 are as follows:

	Six months ended 30th June		Three months ended 30th June	
	2002	2001	2002	2001
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Turnover				
System development and integration	46,726	40,113	39,440	33,073
Professional IT contract service	9,392	3,993	1,516	3,529
Total turnover	56,118	44,106	40,956	36,602
Other revenue	1,089	282	866	282
Total revenue	<u>57,207</u>	<u>44,388</u>	<u>41,822</u>	<u>36,884</u>

b. *Business segment*

An analysis of the Group's turnover and profit attributable to shareholders by business segment is as follows:

	Turnover For the six months ended 30th June		Profit attributable to shareholders For the six months ended 30th June	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
System development and integration	46,726	40,113	15,299	10,835
Professional IT contract service	9,392	3,993	3,928	4,070
	<u>56,118</u>	<u>44,106</u>	19,227	14,905
Unallocated income and expenses			<u>(11,612)</u>	<u>(10,634)</u>
			<u>7,615</u>	<u>4,271</u>
Profit before minority interests			7,615	4,271
Less: minority interests			<u>(524)</u>	<u>(284)</u>
Net profit for the period			<u>7,091</u>	<u>3,987</u>

During the Relevant Period, the Group's turnover was principally generated in the PRC. Accordingly, an analysis of the Group's turnover by geographical segments is not prepared in this report.

5. Profit from operating activities

The Group's profit from operating activities is arrived at after taking into account the following items:

	Six months ended 30th June		Three months ended 30th June	
	2002 <i>(unaudited)</i> HK\$'000	2001 <i>(unaudited)</i> HK\$'000	2002 <i>(unaudited)</i> HK\$'000	2001 <i>(unaudited)</i> HK\$'000
Auditors' remuneration	12	12	—	—
Cost of inventories sold and services provided	37,339	28,653	27,252	23,158
Depreciation	1,104	1,102	552	551
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. Finance costs

	Six months ended 30th June		Three months ended 30th June	
	2002 <i>(unaudited)</i> HK\$'000	2001 <i>(unaudited)</i> HK\$'000	2002 <i>(unaudited)</i> HK\$'000	2001 <i>(unaudited)</i> HK\$'000
Interest on bank loans wholly repayable within one year	761	350	357	174
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Tax

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong profits tax has been provided under review. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the respective companies of the Group operate, based on existing legislation, interpretations and practices in respect thereof during the Relevant Period.

Datasys DIS was subject to corporate income tax at a rate of 7.5% on its taxable income from 1998 to 2000 and at 15% thereafter pursuant to an approval granted by the local tax authority on 21st November 2000. In addition, Datasys DIS is fully exempted from local income tax.

DIS Aipu was fully exempted from corporate income tax for the period from 1st July 1998 to 31st December 2000 and, at 7.5% from 2001 to 2003 and 15% on its taxable income thereafter. In addition, DIS Aipu is fully exempted from local income tax.

There were no unprovided deferred tax in respect of the period under review (2001: Nil).

8. Dividends

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

9. Earnings per share

The basic earnings per share for the three months and six months ended 30th June 2002 are calculated based on the unaudited combined profit attributable to shareholders of the Company for the three months and six months ended 30th June 2002 of approximately HK\$7,922,000 and HK\$7,091,000, respectively (2001: approximately HK\$6,251,000 and HK\$3,987,000, respectively) and 800,000,000 shares deemed to have been issued during the period under review on the assumption that the Group Reorganisation and the subsequent capitalisation issue and placing of 797,857,143 shares of the Company had been effective since 1st January 2001.

No diluted earnings per share have been presented for the three months and six months ended 30th June 2002 and 2001 as no diluting events existed during the period under review.

10. Trade receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 7 to 90 days. Overdue balances are reviewed regularly by senior management. Provision for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off as incurred.

	As at 30th June 2002	As at 31st December 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ageing:		
0 to 30 days	30,430	6,758
31 to 60 days	3,553	10,607
61 to 90 days	4,136	12,326
91 to 180 days	6,168	5,449
181 to 365 days	16,700	12,420
Between 1 to 2 years	10,555	8,575
Over 2 years	2,701	1,568
Less: Provision for doubtful debts	(2,168)	(2,168)
	<u>72,075</u>	<u>55,535</u>

11. Trade payables

	As at 30th June 2002	As at 31st December 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ageing:		
Within 180 days	582	194
Between 181 days to 1 year	—	—
Between 1 to 2 years	—	32
Over 2 years	3,857	3,857
	<u>4,213</u>	<u>4,083</u>

12. Bank loans

As at 30th June 2002 and 31st December 2001, the Group has two short term bank loans of RMB28 million in aggregate. One of the bank loan of RMB13.0 million (equivalent to HK\$12.2 million) is secured by a time deposit of US\$1.7 million. The remaining balance of RMB15.0 million (equivalent to approximately HK\$14.0 million) is supported by a corporate guarantee executed by a non-related company and was repaid by the Group in July 2002.

13. Share capital

	As at 30th June 2002		As at 31st December 2001	
	Number of shares	Nominal value HK\$	Number of shares	Nominal value HK\$
Authorised:				
- ordinary shares of HK\$0.1 each				
At beginning of year and end of period/year	<u>1,000,000,000</u>	<u>100,000,000</u>	<u>1,000,000,000</u>	<u>100,000,000</u>

Issued and fully paid:

	As at 30th June 2002		As at 31st December 2001	
	Number of shares	Nominal value HK\$	Number of shares	Nominal value HK\$
Issued and fully paid:				
- ordinary shares of HK\$0.1 each				
At beginning and end of period/year	<u>2,142,857</u>	<u>214,286</u>	<u>2,000,000</u>	<u>200,000</u>

14. Commitments and contingent liabilities

As at 30th June 2002, the Group had operating lease commitments of approximately HK\$4,262,000 (as at 31st December 2001: approximately HK\$3,587,000), out of which approximately HK\$2,707,000 was payable within one year (as at 31st December 2001: approximately HK\$2,766,000). As at 30th June 2002, the Group did not have any capital commitments.

The Group was engaged in certain litigation proceedings with a former director of Datasys DIS (the "Former Director"). On 19th July 2000, the Former Director filed a claim against Datasys DIS for failure to pay approximately RMB2.3 million in breach of an agreement dated 13th May 1999 made between the Former Director and Datasys DIS. On 15th April 2002, the Intermediate People's Court in Beijing issued a final judgment against the Former Director and ruled that the Former Director has breach his obligations under the said agreement and was not entitled to any payment under the said agreement.

On 6th September 2000, Datasys DIS commenced an action against the Former Director for, among others, the wrongful use, disclosure and withholding of commercial secrets owned by Datasys DIS. On 5th August 2001, the Higher People's Court in Shanxi issued a final judgment in favour of Datasys DIS and the Former Director was ordered to pay Datasys DIS RMB3,499,323 as compensation. As at the Latest Practicable Date, the Former Director has not paid the compensation to the Group.

However, under the PRC laws, within the two years from the date of the judgements of the said litigation, the parties may apply for a retrial if the People's Court is satisfied with certain conditions detailed in Appendix 5 of the Prospectus under the heading "Litigation". The Directors are of the view that the possibility of a retrial in relation to the said litigation between Datasys DIS and the Former Director is remote. Pursuant to a deed of undertaking dated 31st July 2002 entered into between Mr. Ding Wei Ming ("Mr. Ding") and Mr. Shang Gang ("Mr. Shang") in favour of the Company, Mr. Ding and Mr. Shang have jointly and severally undertaken to indemnify the Group against any loss, liability or cost suffered by the Group in connection with such litigation.

15. Subsequent events

Subsequent to 30th June 2002, the following significant events occurred:

- a) A special dividend ("Special Dividend") of approximately HK\$8,713,500 was declared and approved by the Board and the shareholders of the Company on 24th July 2002 for the benefits of the shareholders whose names appeared on the register of members of the Company on 31st December 2001. Pursuant to written instructions given by Shinning Path Limited, Ortho-Deal Corporate Services Limited and Glotek Investment Limited, all being the shareholders of the Company as at 31st December 2001, the Company was instructed to pay all their entitlements to the Special Dividend to Jade Key Company Inc.
- b) Pursuant to a shareholders' resolution passed on 24th July 2002, the authorised share capital of the Company was increased from 1,000,000,000 shares of nominal value HK\$100,000,000 to 2,000,000,000 shares of nominal value HK\$200,000,000.

Save as aforesaid, no other material significant events took place subsequent to 30th June 2002.

16. Directors' and Chief Executives' Interests in the Share Capital

As at date of this announcement, the interests of the Directors, chief executives of the Company and their respective associates in the Company and its associated corporations as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") of the Company or which required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total interests
Mr. Ding Wei Ming	—	—	351,680,000	—	351,680,000
Mr. Shang Gang	—	—	351,680,000	—	351,680,000
			(Note)		(Note)

Note: These shares, representing approximately 43.96% of the issued share capital of the Company, are held by Jade Key Company Inc., a company owned by Mr. Ding and Mr. Shang in equal shares. Mr. Ding and Mr. Shang is deemed (by virtue of the SDI Ordinance) to be interested in these shares in the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

No options have been granted by the Company to any Directors/employees in the Company under the share option scheme in the Company.

SUBSTANTIAL SHAREHOLDERS

As at date of this announcement, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of holding
Jade Key Company Inc. (<i>note i</i>)	351,680,000	43.96%
Mr. Ding Wei Ming (<i>note i</i>)	351,680,000	43.96%
Mr. Shang Gang (<i>note i</i>)	351,680,000	43.96%
Shinning Path Limited (<i>note ii</i>)	175,840,000	21.98%
Mr. Zhang Jian (<i>note ii</i>)	175,840,000	21.98%

Notes:

- i. Jade Key Company Inc., is beneficially owned by Mr. Ding and Mr. Shang, directors of the Company, in equal shares.
- ii. Shinning Path Limited, is beneficially owned by Mr. Zhang Jian, an independent third party not connected with the Directors, chief executives, substantial shareholders (other than Shinning Path Limited) or management shareholders of any member of the Group or any of their respective associates.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme adopted by the Company on 29th July 2002, a share option scheme was approved and the Directors may, at their discretion, invite any employee, officer, agent, consultant or representative of the Group, including any executive or non-executive Director of the Group to subscribe for shares of the Company at a price to be determined by the Board. The subscription price will be at least the highest of:

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and
- (iii) the nominal value of a share of the Company.

The total number of shares of the Company in respect of which options may be granted under the share option scheme of the Company must not represent more than 10% of the shares in issue as at the date of the listing of the shares on GEM.

As at date of this announcement, no options have been granted by the Company to any Directors/employees under the share option scheme of the Company.

CONNECTED PARTY TRANSACTIONS

No connected transactions with its connected persons as defined in the GEM Listing Rules during the Review Period.

COMPETITION AND CONFLICT OF INTERESTS

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

SPONSOR'S INTEREST

As confirmed by the Company's sponsor, CSC Asia Ltd. (the "Sponsor"), as at the date of this announcement, neither the Sponsor nor any of its directors, employees and associates (as referred in Note 3 to rule 6.35 of the GEM Listing Rules) have had any interest in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company, or any members of the Group.

Upon the listing of shares in the Company on GEM, the Sponsor will receive fees under a sponsor's agreement dated 31st July 2002 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to rules 6.01 and 17.81 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established the Audit Committee on 12th July 2002 with written terms of references in compliance with rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants.

The Audit Committee consists of two independent non-executive Directors, namely, Mr. LI Hong and Mr. XIA Qing, and an executive Director, namely, Mr. DING Wei Ming. Mr. Li is the Chairman of the Audit Committee. The Audit Committee has reviewed the draft of this Report and has provided advice and comments thereon.

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 since the date of listing of the Company's shares in GEM.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on GEM on 16th August 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

On behalf of the board
Datsys Technology Holdings Limited
DING Wei Ming, William
Chairman and Executive Director

Hong Kong, 20th August 2002