



Datasys Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

2002/03 1st Quarterly Report



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HIGHLIGHTS

The Group achieved total revenue of approximately HK\$5.7 million for the three months ended 31 March 2003.

Loss attributable to shareholders for the same period increased to HK\$4.7 million as compared with the corresponding period of 2002.

Loss per share for the same period increased to HK cents of 0.58 as compared with loss per share of HK cents 0.13 for the corresponding period of 2002.

The directors of the Company do not recommend the payment of interim dividend to the shareholders of the Company for the three months ended 31 March 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The board of directors (the "Board") of Datasys Technology Holdings Co., Ltd. (the "Company") 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 31 March 2003 together with the unaudited comparative unaudited figures for the corresponding periods in 2002 as follows:

	Notes	Three months ended 31 March	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	3	5,709	15,162
Cost of sales		(4,306)	(10,087)
Gross profit		1,403	5,075
Other revenue	3	362	223
Selling and distribution costs		(2,174)	(1,657)
Administrative expenses		(3,803)	(4,381)
Losses from operating activities		(4,212)	(740)
Finance costs		(794)	(404)
Losses before tax		(5,006)	(1,144)
Tax	4	–	–
Losses before minority interest		(5,006)	(1,144)
Minority interest		342	77
Losses attributable to shareholders		(4,664)	(1,067)
Loss per share – basic (cent)	6	(0.58)	(0.13)

Notes on the unaudited interim report:

1. Basis of presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 5 September 2000 under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a group reorganization (the "Group Reorganisation") to rationalise the 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 16 August 2002, the Company became the holding company of the companies now comprising the Group on 23 October 2000. Further details of the Group Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 31 July 2002.

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").

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

2. Principal accounting policies

The 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 adopted by the Group for the year ended 31 December 2002.

3. 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:

	Three months ended 31 March	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover		
System development and integration	4,880	7,286
Professional IT contract service	829	7,876
Total turnover	5,701	15,162
Other revenue	362	223
Total revenue	6,063	15,385

b. Business segment

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

	Turnover For the three months ended 31 March,		Profit attributable to shareholders For the three months ended 31 March,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
System development and integration	4,880	7,286	1,220	2,385
Professional IT contract service	829	7,876	183	2,690
	5,701	15,162	1,403	5,075
Unallocated income and expenses			(6,067)	(6,142)
			(4,664)	(1,067)

During the Relevant Periods, 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.

4. Tax

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong profits tax has been provided in the period 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 Periods.

Datasys DIS was subject to corporate income tax at a rate of 15% on its taxable income and was fully exempted from local income tax.

DIS Aipu was subject to corporate income tax at a rate of 7.5% from 2001 to 2003 and 15% on its taxable income thereafter. In addition, DIS Aipu was fully exempted from local income tax.

There were no unprovided deferred tax in respect of the period under review (2002: Nil).

5. Dividends

The directors do not recommend the payment of interim dividend for the three months ended 31 March 2003.

6. Loss per share

The basic loss per share for the three months ended 31 March 2003 are calculated based on the unaudited combined loss attributable to shareholders of the Company for the three months ended 31 March 2003 of approximately HK\$4,644,000 (2002: approximately HK\$1,067,000) and 800,000,000 shares deemed to have been issued during the period under review on the assumption that the Group Reorganisation and the capitalization issue and placing of 797,857,143 shares of the Company had been effective since 1 January 2001.

No diluted earnings per share have been presented for the three months ended 31 March 2003 and 2002 as no diluting events existed during the period under review.

7. Reserves

Other than the net loss for each of the three months ended 31 March 2003 and 2002, there was no movement to or from reserves during the three months ended 31 March 2003 and 31 March 2002.



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The turnover of the Group for the three months ended 31 March 2003 decreased by approximately 62% to approximately HK\$5.7 million as compared to the corresponding period in 2002. The decrease in turnover during the Review Period was mainly attributable to the significant decrease in revenue by approximately 89% from the provision of IT contract services from approximately HK\$7.9 million to HK\$0.8 million. Gross profit (turnover less cost of sales) for the three months ended 31 March 2003 reduced to 24.5% as compared with the same period in 2002. Approximately 85% of the Group's gross profit was generated from its system development and integration. The significant decrease in turnover was mainly due to the delay of the completion of the reform of electric power station sector in the PRC until early 2003 and 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 Directors' experience, 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 following year.

In the 2nd quarter of 2003, the Group focused 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

Research and development of products

The Group is now in cooperation with Microsoft (China) Limited to develop our application software under Microsoft's platform. The Group has now developing Enterprise Resources Planning (ERP) System and Enterprise Application Integration (EAI) System for the Electric Power Generation Enterprises under the Microsoft's platform.

Moreover, the Group has successfully developed the Vehicle Information Data Centre (VID) System and will launch into market in the coming months.

Market development

The group has successfully secured some contracts with CLP in 2003 and the Group is now negotiation with CLP to sign a strategic alliance agreement to promote PPSP or SAP related software. Some of our products were summarized as follows:

- Power Plant ERP
- Power Distribution MIS
- Enterprise Application Integration
- E-Government solution
- Vehicle Information Data Centre (VID)

Prospects

Although there has been a sharp decrease in the turnover of the Company in the first quarter of 2003 as compared with the corresponding period in last year. The Company will perfect the sales and management system and increase the efforts on research and development and speed up the launching of new products to the market.

Based on current sales and marketing effort, the Group has successfully secured contracts of approximately RMB5 million in the Digital Monitoring System business as of date of this announcement.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

From 1 January 2003 to 30 June 2003

From 1 January 2003 to 31 March 2003

Increase the coverage of the Group's nationwide network via the expansion of the Group's existing branches or representative offices.

Expected progress

To set up representatives offices/branches in Xian, Nanchang and Wuhan

Actual progress

The Group has opened Hangzhou branches in early 2003 and has formed a joint venture in Wuhan

Continue to publish professional articles about IT applications in various industrial newspaper and magazines and participate in nation-wide seminars for public security sector

Expected progress

To publish 2 articles about IT application in Newspapers and magazines

Actual progress

Issue two customer forums in the "China Computer Users" Magazine.

Participate in nation-wide seminars

On 11 January 2003, our Chairman Mr. Ding participated as a speaker in "The 7th China Capital Market Forum".

On January 2003, the Company coordinate a "Electric Power Station Asset Maintenance Seminar" in Hangzhou.



Use of proceeds

The net proceeds raised from the new issue of shares by way of placing were approximately HK\$48 million, and were utilized in the following areas:

	Use of proceeds as stated in the prospectus	Actual amount utilized up to 31 March 2003
	<i>HK\$' million</i>	<i>HK\$' million</i>
Research and development	12.0	2.5
Sales and marketing	4.0	0.5
Expansion of existing branches or Offices	4.15	0.3
Expansion of new branches or Offices	7.85	0.1
Performance bonds	7.6	0.3
Strategic investments	7.4	0.2
Working capitals	5.0	2.5
Total	48.0	6.4

Subsequent events

Save as aforesaid, no other material significant events took place subsequent to the review period.

Directors' and Chief Executive's Interests in Share Capital

As at 31 March 2003, 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	Family	Corporate Shares	Other	Total shares
Mr. Ding Wei Ming	-	-	351,680,000	-	351,680,000
Mr. Shang Gang	-	-	351,680,000	-	351,680,000
			<i>(Note)</i>		<i>(Note)</i>

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 Wei Ming and Mr. Shang Gang in equal shares. Mr. Ding Wei Ming and Mr. Shang Gang is deemed (by virtue of the SDI Ordinance) to be interested in these shares.

Directors' and Chief Executive's Rights to Acquire Shares

No options have been granted by the Company to any Directors/employees under the share option scheme adopted on 29 July 2002.

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 Inc. (<i>note i</i>)	351,680,000	43.96%
Shinning Path Limited (<i>note ii</i>)	175,840,000	21.98%


Notes:

- i. Jade Key Company Inc., is beneficially owned by Mr. Ding Wei Ming and Mr. Shang Gang, 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.

Share Option Schemes

Pursuant to the pre-IPO share option scheme adopted by the Company on 29 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 as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day;
- (ii) the average closing price of the shares 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.



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

As at date of this announcement, no options have been granted by the Company to any Directors/employees under the Share Option Scheme.

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" or "CSC"), as at 31 March 2003, neither the Sponsors nor 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.

By a sponsorship agreement entered into between the Company and CSC pursuant to which CSC has been appointed as sponsor of the Company until 31 December 2004 and the Company shall pay an agreed fee to CSC for its provision of services.

Audit Committee

The Company established an audit committee (the "Committee") on 12 July 2002 (the "Committee") 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 Committee consists of two Independent Non-executive Directors, namely, Mr. Li Hong and Mr. Xia Qing, and the Executive Director, namely, Mr. Ding Wei Ming. Mr. Li is the Chairman of the Committee. The Audit Committee has reviewed the draft of this Report and has provided advice and comments thereon.

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

Hong Kong, 15 May 2003