# Datasys Technology Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2002

# IMPORTANT NOTICE

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The 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 the 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on the 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 the GEM-listed issuers.

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this 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 the contents of this report.*

*This report, for which the directors of Datasys Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Datasys Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. 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.*

# CONTENTS

# CORPORATE INFORMATION

**BOARD OF DIRECTORS**
Mr. Ding Wei Ming *(Chairman)*
Mr. Shang Gang
Mr. Hu Song Hua
Ms. Cao Ze Lan
Ms. Li Wei Min
Mr. Guo Shao Qing

*Independent Non-Executive Directors*
Mr. Xia Qing
Mr. Li Hong

**COMPANY SECRETARY**
Mr. Chui Chi Yun, Robert

**FINANCIAL CONTROLLER**
Mr. Chung Chi Kong

**COMPLIANCE OFFICER**
Mr. Ding Wei Ming

**AUDIT COMMITTEE**
Mr. Xia Qing
Mr. Li Hong
Mr. Ding Wei Ming

**PRINCIPAL BANKER**
China Minsheng Banking Corp. Ltd.
4 Zhenyi Road
Dongcheng District
Beijing 100006
The People's Republic of China

**AUDITORS**
Ernst & Young
15/F Hutchison House
10 Harcourt Road
Central
Hong Kong

**REGISTERED OFFICE**
P. O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG**
Room 2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

**HEAD OFFICE**
2/F, Commercial Mansion
No. 11, Zhongguancun Nan Street
Haidian District
Beijing. 100081
The People's Republic of China

**SHARE REGISTRAR AND TRANSFER**
Tengis Limited
4/F Floor, Hutchison House
10 Harcourt Road
Hong Kong

**LEGAL ADVISOR**
Tsun & Partner
Suite 1002, 10/F
Aon China Building
29 Queen's Road Central
Hong Kong

**SPONSOR**
CSC Asia Limited
28/F COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

On behalf of the Board of Directors (the "Board") of Datasys Technology Holdings Limited ("Datasys" or the "Company"), I am pleased to present Datasys' annual results for the financial year ended 31 December 2002 after the Company listed on the GEM Board of the Stock Exchange of Hong Kong Limited ("SEHK"). The successful listing of Datasys has enabled the Company and its subsidiaries (collectively the "Group") to improve its equity capitalisation, liquidity and reputation. Leveraging on the proceeds from the listing, Datasys has been able to implement key strategic initiatives in its three main areas of business, namely, software development of electric power station, general software and digital monitoring system. Paving the way to capture market potential in the wake of China's accession to the World Trade Organization ("WTO"), additional presences established, and operations scaled-up. The year under review has therefore been a year of investment and an important exercise in the building up the Group's presence.

During the second half of 2002, with the implementation of the reformation of the basic hierarchy of the Electric Power Industry by Mainland China government, most of the investment projects of the Electric Power Industry were slowed down and thus seriously affecting the whole Electric Power Industry. The Group, however, believes this is only temporary adjustment, which will not last long. In order to improve the competitive edges of the electric power companies as monopolies will no longer be present in the Electric Power Industry and therefore significant increase in the IT investment by the electric power companies will be observed. Following the reformation of the Electric Power Industry with the Group's strong business foundations as well as its reputable service, there are ample business opportunities ahead for the Group. More importantly, with "the separation of the Power Station and Power Grid and introduction of Power Grid Bidding", the "Power Trading System" developed by the Group will become a growing market. Datasys is ideally positioned to capture a significant share of this market to generate better returns for its supportive shareholders.

## FINANCIAL PERFORMANCE

For the year ended 31 December 2002, the Group recorded a decrease in turnover from approximately HK$127 million in 2001 to approximately HK$102 million. Electric Power Industry continued to be the Group's major market, accounting for more than 77% of the total turnover. Unfortunately, the Electric Power Industry underwent a series of reformation and restructuring initiated by the PRC government during the year under review. These measures substantially affected the progress of the projects in the industry during 2002. In view of these changes and the increased operating costs, the Group recorded a profit attributable to shareholders of approximately HK$551,000 (2001: HK$20,116,000).

The Group believes that the scaling-up measures were necessary to position the Group for healthy growth as the Group expects that once the reformation of Electric Power Industry is completed, not only projects currently on hold will gradually be released and more business opportunities (such as Power Trading System) will be appeared. This positive effect is expected to be reflected in the third quarters of 2003.

The Group continued to improve financial resources and liquidity during the year ended 31 December 2002. As at 31 December 2002, the Group had cash and bank deposits of approximately HK$76 million (2001: HK$28 million).

**FINAL DIVIDENDS**

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil).

**BUSINESS REVIEW**

During the year under review, the Group expanded its market in Mainland China by establishing a branch and an associated company in Hangzhou and Wuhan, respectively (all the registration documents were approved in January 2003). With regard to its businesses, major revenue was derived from the system development and integration business for Electric Power Industry, representing approximately 77% (2001: 75%) of the Group's total turnover. Moreover, sales of King Guard Real Time Digital Monitoring System also accounted for approximately 12% (2001:Nil) of the Group's turnover and become another important product of the Group in near future.

***Industry Oriented and Standalone IT Solutions***

Provision of standalone IT solutions to the Electric Power companies continue to be the core business of the Group. During the period under review, the Group continued to further research, develop and enhance the application software "Electric Power System" and marketing the product. Moreover, the Group has successfully developed the second phase of "Power Exchange System" software and commence the development of the four generation of the "Power Plant Management System" software. Comparing with the first generation of "Power Exchange System", the second phase mainly have improvements in (i) Monitoring the malfunction of power stations, (ii) Mathematical modeling and other related application modules and successfully upgraded to be a three-tier networking structure. The fourth generation of Power Plant Management System will also enhance our end-users to reduce the workload for maintenance under the three-tier networking structure.

The Group has successfully reinforced its marketing effort in western Mainland China and successfully secured contracts in Inner-Mongolia, Qinghai Province, Xichuan Province, Chongqing Province, Guizhou Province, Guangxi Province and Yunnan Province and the project amount of the first phase Chongqing Province Power MIS contract was over RMB20 million (approximately HK$18.9 million).

In view of the leading position of the Group in the Electric Power Industry, the Group was awarded by IBM, CISCO, NORTEL and MICROSOFT as the "1st priority strategic partners" in the Electric Power Industry and has signed strategic partnership agreement with MICROSOFT. These alliances will enhance the Group's competitive strength and preparing the Group for the industry's recovery.

***Digital Monitoring System***

Since the Group entered this market in late 2001, the Group has invested a significant amount for technology enhancement and marketing workforce. Our self-developed product "Cable TV Network Monitoring System" has passed the quality control of CATV and the Group was awarded the products certificate. Moreover, another product "Broadband Network Digital Monitoring System" was also successfully developed in 2003.

After the Group has successfully completed the Cable TV Network Monitoring System Liaoyuan City Jilin Province, the Group has secured the project for Changchun City Jilin Province. Moreover, the Group has also signed contracts with various banks such as Tianjin City Agricultural

Bank of China. In order to further penetrate into the market, the Group also markets its products with agents in several provinces so as to establish a strong foundation for this market.

*Common Software*

During the year under review, the Group successfully launched the new generation "Enterprise Application Integration" software and "e-government" software and successfully signed contracts with some governmental bodies.

**PROSPECTS**

For the year ahead, the Group is ready and able to respond to market conditions as they unfold. In view of its excellent standalone solutions and products, and high quality of customer service, the Group has earned a leading reputation among Electric Power Companies. Having planned for the technology research and development and direct sales in the coming year, the Group will strengthen our cooperation with our partners, form more strategic partnerships, distribution networks so as to enlarge our research and development ability and marketing networks.

Meanwhile, fueled by buoyant consumer spending and its entry to the WTO, Mainland China continues to thrive as on of Asia's leading economies. By scaling up the Group's operations in Mainland China, the Directors believe that the positive outcome will soon be reflected. Against a backdrop of the current geo-political uncertainty, the outlook of the business may be challenging. Management will, however, continue to monitor the situation closely and react accordingly.

**Ding Wei Ming**
*Chairman and Executive Director*

Beijing the PRC
30 May 2003

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 December 2002, the Group continued to adopt conservative policies in cash and financial management. Cash was mainly placed as interest-bearing deposits with banks in Mainland China and Hong Kong, with a certain portion pledged to banks to acquire banking facilities. As at 31 December 2002, the total current assets amounted to approximately HK$215 million (2001: HK$130 million), representing a 65% increase as compared with 2001.

The Group generally financed its operations and service its debts with cash generated from its business operations, bank facilities and net proceeds from the Placing (as defined in the Prospectus). As at 31 December, the Group had cash and bank balances of approximately HK$11 million (2001: HK$12 million) and pledged deposits of HK$65 million (2001: HK$16 million), short term bank borrowings of approximately HK$58 million (2001: HK$26 million).

The Directors believe the existing financial resources are sufficient to fulfill its current working capital requirements.

As at 31 December 2002, all assets and liabilities were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

## ORDER BOOK AND PROSPECTS OF NEW BUSINESS

As at date of this announcement, the Group had contracts on hand for sales amounting to approximately HK$17 million (2001: HK$25 million) which would be booked as revenue upon delivery and implementation.

While expanding the business on the Real Time Digital Monitoring System, the Group will continue to concentrate in its present core Electric Power Station business.

## CHARGES ON GROUP ASSETS

As at 31 December 2002, the Group had bank borrowings of HK$58 million which were secured by pledged bank deposits of approximately HK$64 million.

Save as disclosed above, the Group did not have any significant charges on assets as at 31 December 2002.

## GEARING RATIO

As at 31 December 2002, the gearing ratio (total liabilities divided by total assets) was slightly reduced to approximately 41% (2001: 43%). The improvement was mainly due to net proceeds raised from the Placing.

## FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group earned revenue and incurred costs and expenses mainly in Renminbi and Hong Kong dollars. As the exchange rates of such currencies have been stable, no hedging or other alternatives have been implemented.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2002.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Company's shares were listed on GEM on 16 August 2002. Neither the Company, nor any of its subsidiaries had any significant acquisitions, disposals and investment during the year.

## FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

Except for those plans as set out in the Prospectus, there have been no plans for significant investment, capital assets and sources of funding.

## EMPLOYEE INFORMATION

As at 31 December 2002, the Group had 170 employees. Most of them were based in Mainland China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides other benefits such as medical scheme, share option scheme and staff training programs to employees. There has no major change on staff remuneration policies during the year.

## COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

| From 1 July 2002 to 31 December 2002 | From 1 July 2002 to 31 December 2002 |
|---|---|

**Development of new MIS application software and to provide sophisticated IT solutions for the electric power industry**

| **Expected project progress** | **Actual project progress** |
|---|---|
| To further enhance the power trading system as well as the power dispatching automation system. | Form strategic alliance with Microsoft (China) Limited to jointly develop the software for the electric power industry. |
| To further modify the King Guard Digital Realtime Monitoring System with the help of The Chinese People's Public Security University. | A new version of Digital Realtime Monitoring System was developed and the Group has granted the certificate from the National Administration Bureau of Film and Television to distribute the Products since October 2002. |

**Expansion of its marketing department at the head office in Beijing and launch of advertising activities**

| **Expected project progress** | **Actual project progress** |
|---|---|
| Further expansion of the marketing department in the head office in Beijing. | The Group has set up a marketing department in 2002 and has launched some advertisement in the newspaper to build up the public image in the IT industry. |

**Establishment of strategic business alliance or entry into agreements with government authorities and/or organisations responsible for the governance or overall planning of industries in which the Group operates**

| **Expected project progress** | **Actual project progress** |
|---|---|
| To co-operate/liaise with some major suppliers to jointly develop and promote the Group's product in the electric power and government industry. | The Group has signed a strategic alliance agreement with Microsoft (China) Limited to develop the Group's software under Microsoft's operating platform. |

# USE OF PROCEEDS

The net proceeds raised from the Company's issue of new shares by way of Placing were approximately HK$48.2 million, and were utilised in the following areas:

| | **Proposed total funding from net proceeds** | **Proposed funding during the period** | **Actual funding spent during the period** |
|---|---|---|---|
| | HK$million | HK$million | HK$million |
| Research and development | 12.00 | 4.67 | 2.30 |
| Sales and marketing | 4.00 | 0.85 | 0.30 |
| Expansion of existing branches or offices | 4.15 | 1.06 | 0.20 |
| Expansion of new branches or offices | 7.85 | 1.44 | – |
| Others | 20.20 | 5.60 | 2.30 |
| Total | 48.20 | 13.62 | 5.10 |

The remaining proceeds of approximately HK$43 million were placed with licensed banks and financial institutions in Hong Kong and Mainland China.

## EXECUTIVE DIRECTORS

Ding Wei Ming (丁偉明), aged 39, is the founder and chairman of the Company. He is responsible for the overall strategic planning of the business of the Group, and, in particular, the Group's directions in technology deployment and research and development. Mr. Ding has over 10 years 'experience in the IT industry including his service period at Digital Equipment Corporation and the research department of the Ministry of Railway of the PRC (中華人民共和國鐵道部).Mr. Ding obtained a Bachelor's Degree in science from Nanjing University (南京大學) in the PRC in 1983 and a Master's Degree in business administration from the State University of New York at Buffalo in the US in 1988.

Shang Gang (商剛),aged 40, is the co-founder and president of the Company. He is responsible for the overall management and planning of the Group. Mr. Shang has over 14 years of experience in MIS operations. Before founding the Group, Mr. Shang worked as a marketing specialist at DEC China Limited, a subsidiary of Digital Equipment Corporation, and as a lecturer at the Faculty of Computer Science at the University of International Business and Economics (對外經濟貿易大學) in the PRC. He obtained a Bachelor's Degree in computer science from the Chengdu Institute of Telecommunication (成都電訊工程學院) in the PRC in 1986.

Cao Ze Lan (曹澤蘭), aged 63, is the vice president of the Company who does not have any shareholding interest in the Group. She joined the Group in May 1994 and is currently responsible for the management of the research and development of the Group. Ms. Cao obtained her Bachelor's Degree from Sichuan University (四川大學) in the PRC in 1960. She has over 40 years of experience in research and teaching. Prior to joining the Group. Ms. Cao worked as a professor of computer department of University of International Business and Economics (對外經濟貿易大學).She is recognised as one of the College Computer Department Deans who has made remarkable contributions. Ms. Cao is one of the experts who are responsible to evaluate China's management modernisation. She is also a member of Expert Board evaluating the Railway Tickets Network System. Ms. Cao was one of the designers of the information system for the 90's Asian Games and won an award for her excellent work.

Hu Song Hua (胡頌華), aged 39, is the vice president of the Company responsible for corporate investment, planning, development and strategic alliances of the Group who does not have any shareholding interest in the Group. He joined the Group in August 2000 and has over five years of corporate planning and mergers and acquisitions experience in the PRC during his previous employment at a PRC company. Before furthering his studies in the Federal Republic of Germany in 1990, Mr. Hu worked as an engineer at the China Academy of Railway Services of the Ministry of Railway of the PRC (中華人民共和國鐵道部科學研究院) from 1984 to 1990 during which, he participated in research and development of MIS for the national railway system and received the award of "Outstanding Technical Personnel" by the Ministry of Railway of the PRC (中華人民共和國鐵道部). Mr. Hu holds a senior engineer qualification certificate awarded by MOFTEC (Ministry of Foreign Trade and Economic Cooperation) (中華人民共和國對外貿易經濟合作部). He obtained a Bachelor's Degree in engineering mechanics from Dalian Polytechnic University (大連工學院) in the PRC in 1984 and a Master's Degree of Infrastructure Planning from the University of Stuttgart in the Federal Republic of Germany in 1993.

Li Wei Min (李為民), aged 38, is an executive Director of the Company responsible for the overall management, planning and sales and marketing of the public utility sector of the Group. He received a Bachelor's Degree in raw material from Chengdu Polytechnic College (成都理工學院) in 1984 and a Master's Degree in civil engineering from Tsinghua University (清華大學) in 1994. Prior to joining the Group in June 1998, Mr. Li was the general manager at Hebei Jihao Technology Development Ltd. (河北集浩科技有限公司) and was the general manager at the business development department of Beijing Pansky E-business Application Software &System Co., Ltd. (北京長天電子商務應用軟件與系統有限公司).

Guo Shao Qing (郭少青), aged 39, joined the Group in July, 1995 and is the deputy general manager of Datasys DIS. He is in charge of the development of Power Trading System of the Group. Mr. Guo obtained his Bachelor's Degree from South Centre University (中南大學) (formerly known as South Centre Mineral and Metallurgy University (中南礦冶學院)) in 1984. He has been a senior engineer with Automation Research Institute of Metallurgy (冶金部自動化研究院) for over a period of ten years.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Hong (李宏), aged 33, was appointed as a non-executive Director in August 2000. He is a partner of Titan Law Firm (北京市天勤律師事務所) established in the PRC. Mr. Li has over 7 years of concrete experience in the legal aspects of listing, corporate reorganisation, merger and acquisition, and has been involved in the restructuring of companies listed in the PRC and Hong Kong. He obtained a Bachelor's Degree in Law in 1990 and a Master's Degree in Business Law from Beijing University (北京大學) in the PRC in 1996. In addition, Mr. Li has also been granted professional qualification to engage in securities legal practice by CSRC and Ministry of Justice of the PRC (中華人民共和國司法部).

Xia Qing (夏清), aged 45, was appointed as a non-executive Director in May 2001. He is a professor of the Electrical Engineering Department of Tsinghua University (清華大學) in the PRC. Dr. Xia has over 10 years of experience in teaching, research and consulting. He obtained a Bachelor's Degree and a Master Degree in Electrical Engineering from Harbin University of Technology (哈爾濱工業大學) in the PRC in 1982 and 1986 respectively. Afterwards, Dr. Xia further his education in Tsinghua University and received his Ph. D. Degree in Engineering in 1989. Dr. Xia has been a professor at Tsinghua University for over 10 years and is now an executive of its Electrical Engineering Department.

## SENIOR MANAGEMENT

Chen Wei Hua (陳衛華), aged 38, joined the Group since September 1996. Not only is he the General Manager of the IT Support Department of the Company who is responsible for the planning, design and implementation of the Group's numerous projects, but also the Assistant Manager of the Group who oversees purchasing and product quality control. Mr. Chen graduated from Nanjing University (南京大學) in the PRC with a Bachelor's Degree in computer system structure in 1985 and holds the certificate of Internal Quality Systems Auditing awarded by Beijing World Trademarks Consultancy

Centre for Quality Assurance (北京世標族質量體系認證諮詢中心). Mr. Chen has substantial experience in the IT industry and his employments prior to joining the Group included being a system engineer and the system support department manager at Beijing Dayu Software Limited, and an engineer at Bureau 11, Ministry of Public Security ()responsible for the management and maintenance of the national police networking security system.

Jia Liguo (賈立國), aged 49, is the director of the Technical Support Department of the Company and is responsible for IT consultancy and training services for the Group's turnkey projects. He joined the Group in July 1998 and has over 15 years of experience in system networking. Mr. Jia graduated from the branch of Beijing Post-Telecommunication College (北京郵電學院分院) with a Bachelor's Degree in engineering. He had been a lecturer at the Faculty of Electronic Engineer at Beijing United University (公安部十一局) before 1990. He then worked as the chief engineer and the head of technical centre at two IT companies in Beijing from 1991 to 1998.

Le Bing (樂兵), aged 41, is the General Manager of the Government Department of Datasys DIS responsible for expanding the market share of the Group in communications, government and public security sectors. Mr. Le has over 13 years of experience in sales and marketing. Before joining the Group in September 2000, he worked for several well known IT products manufacturers including Compaq, Digital Equipment Corporation, International Computer Limited and UNIMAC (北京優航計算機系統有限公司), as a sales manager, business account manager, and sales/marketing department manager respectively. Mr. Le holds a Bachelor's Degree in telecommunication from Chengdu Meteorological Institute (中國科學院成都大氣研究所).

## SENIOR TECHNICAL MANAGER

Tian Jun (田軍), aged 39, joined the Group in June 1999 and is the deputy general manager of DIS Aipu. He is in charge of the software development of the Group. Mr. Tian obtained his Bachelor's Degree in computer science from Xian Communication University (西安交通大學) and his Master Degree in computer application from the Institute of Computing Technology of Chinese Academy of Science (中國科學院計算中心) in 1983 and 1986 respectively. Mr. Tian has been an engineer for the Institute of Computing Technology of Chinese Academy of Science (中國科學院計算中心) from 1986 to 1999.

## COMPANY SECRETARY

Chui Chi Yun Robert (崔志仁), aged 45, is the Company Secretary of the Group overseeing the secretarial and legal matters. He joined the Group in April, 2001. Mr. Chui is the sole proprietor of Robert Chui & Co. and has over 22 years of experience in finance, accounting and auditing. He obtained his Bachelor's of Commerce from Concordia University in Canada in 1978. He is a fellow member of both of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants in United Kingdom.

## FINANCIAL CONTROLLER

Chung Chi Kong (鍾志鋼), aged 33, is the financial controller of the Group. Prior to joining the Group, Mr. Chung has over 10 years working experience with international certified public accountant firms in accounting and auditing fields. Mr. Chung has participated in several listing exercise for the PRC enterprises. Mr. Chung is currently a fellow member of Chartered Association of Certified Accountants and an associate member of Hong Kong Society of Accountants.

## COMPLIANCE OFFICER

Ding Wei Ming (丁偉明), aged 39, is the founder and chairman of the Company. He is responsible for the overall strategic planning of the business of the Group, and, in particular, the Group's directions in technology deployment and research and development. Mr. Ding has over 10 years of experience in the IT industry including his employments at Digital Equipment Corporation and the research department of the Ministry of Railway of the PRC (中華人民共和國鐵道部).With his rich experience in the IT industry, he started to lead the Group in 1992. Mr. Ding holds a Bachelor's Degree in science from Nanjing University (南京大學) in the PRC and a Master Degree in business administration from the State University of New York at Buffalo in the US.

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

## GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 December 2000 under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") to rationalise the corporate structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 August 2002, the Company became the holding company of the subsidiary companies now comprising the Group. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 17 to the financial statements.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the provision of information technology ("IT") contract services and systems development and integration. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 23 to 59.

On 24 July 2002, a special dividend of HK$8,713,500 (the "Special Dividend") was declared and approved by the board of directors for the benefit of the shareholders whose names appeared on the Register of Members on 31 December 2001. The Special Dividend was paid on 24 July 2002.

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2002.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in August 2002, after deduction of related issuance expenses, amounted to approximately HK$48.2 million. Details of the proposed and actual appropriations of the these proceeds are as follows:

| | **Proposed total funding from net proceeds** | **Proposed funding during the period from listing to 31 December 2002** | **Actual funding spent during the period** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Research and development | 12,000 | 4,670 | 2,300 |
| Sales and marketing | 4,000 | 850 | 300 |
| Expansion of existing branches or offices | 4,150 | 1,060 | 200 |
| Expansion of new branches or offices | 7,850 | 1,440 | – |
| Others | 20,200 | 5,600 | 2,300 |
| Total | 48,200 | 13,620 | 5,100 |

## SUMMARY OF PRO FORMA COMBINED AND CONSOLIDATED FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 September 2000 and became the holding company of the companies now comprising the Group as a result of a Group reorganisation, which became effective on 23 October 2000. A summary of the pro forma combined results for the year ended 31 December 2000, which are presented on the basis that the current Group structure had been in existence throughout that year, together with the consolidated results and assets and liabilities of the Group for the years ended 31 December 2001 to 2002, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 60 of the annual report. This summary does not form part of the audited financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital together with the reasons therefor, and details of the Company's share option scheme are set out in notes 27 to 28 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association 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 since the listing of the Company's shares and up to the date of this report.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution amounted to HK$35,491,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 43% of the total turnover for the year and sales to the largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to 13%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company during the year were:

*Executive directors:*
Mr. Ding Wei Ming
Mr. Shang Gang
Ms. Cao Ze Lan
Mr. Hu Song Hua
Mr. Li Wei Min
Mr. Qin Yin (resigned on 31 December 2002)
Mr. Cai Jian Jun (resigned on 16 December 2002)

*Independent non-executive directors:*
Mr. Li Hong
Mr. Xi Qing

Subsequent to the balance sheet date, on 14 May 2003, Mr. Guo Shao Qing was appointed as a director of the Company.

In accordance with articles 112 and 114 of the Company's articles of association, Mr. Ding Wei Ming and Mr. Shang Gang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of three years.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing on 1 July 2002, and is entitled to terminate the contract at any time after that initial term of three years, without, cause by giving not less than three months' prior written notice to the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest in any contract of 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 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as 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** | **Number of shares held as corporate interests** (Note) |
|---|---|
| Mr. Ding Wei Ming | 351,680,000 |
| Mr. Shang Gang | 351,680,000 |

Note: These shares, representing approximately 43.96% of the issued share capital of the Company, are held by Jade Key Company Inc., a company beneficially owned by Mr. Ding Wei Ming and Mr. Shang Gang in equal shares.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of shares held | Percentage of the Company's issued share capital |
|---|---|---|
| Jade Key Company Inc. (Note i) | 351,680,000 | 43.96 |
| Mr. Ding Wei Ming (Note i) | 351,680,000 | 43.96 |
| Mr. Shang Gang (Note i) | 351,680,000 | 43.96 |
| Shinning Path Limited (Note ii) | 175,840,000 | 21.98 |
| Mr. Zhang Jian (Note ii) | 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 or any of their respective associates.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## INTEREST OF SPONSOR

As confirmed by the Company's sponsor, CSC Asia Limited (the "Sponsor"), as at the date of this report, neither the Sponsor nor any of its directors, employees or 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, since the listing of the Company's shares and up to the date of this report.

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

## CONNECTED TRANSACTIONS

During the year, there were no significant transactions which require to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group is set out in note 32 to the financial statements.

## COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interest in a business that competes or may compete with the business of the Group.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 16 August 2002.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee has three members, comprising two independent non-executive directors, namely, Mr. Li Hong (the committee chairman) and Mr. Xia Qing, and an executive director, Mr. Ding Wei Ming. Since its establishment, two audit committee meetings were held to review the Group's interim and third quarter of 2002 results and provide advice and recommendations to the board of directors.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Ding Wei Ming**
*Chairman*
Beijing, the PRC
30 May 2003

# REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
**Datasys Technology Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 23 to 59 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 statements and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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.

## 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 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
30 May 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| TURNOVER | 6 | **102,339** | 127,244 |
| Cost of sales | | **(74,601)** | (81,733) |
| Gross profit | | **27,738** | 45,511 |
| Other revenue | 6 | **3,773** | 2,699 |
| Selling and distribution costs | | **(15,357)** | (14,900) |
| Administrative expenses | | **(12,767)** | (7,897) |
| Other operating expenses | | **440** | (557) |
| PROFIT FROM OPERATING ACTIVITIES | 7 | **3,827** | 24,856 |
| Finance costs | 10 | **(2,106)** | (1,762) |
| PROFIT BEFORE TAX | | **1,721** | 23,094 |
| Tax | 11 | **(1,387)** | (1,958) |
| PROFIT BEFORE MINORITY INTERESTS | | **334** | 21,136 |
| Minority interests | | **217** | (1,020) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **551** | 20,116 |
| DIVIDEND | 13 | **8,714** | – |
| EARNINGS PER SHARE | | | |
| Basic (cents) | 14 | **0.08** | 3.43 |
| Diluted (cents) | 14 | **N/A** | N/A |

# CONSOLIDATED BALANCE SHEET

31 December 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 15 | **4,557** | 4,965 |
| Software development costs | 16 | **3,425** | 1,370 |
| | | **7,982** | 6,335 |
| CURRENT ASSETS | | | |
| Due from directors | 18 | **6,008** | 13,609 |
| Due from a related company | 19 | **3,741** | 4,689 |
| Inventories | 20 | **10,136** | 7,448 |
| Trade receivables | 21 | **73,336** | 55,535 |
| Prepayments, deposits and other receivables | 22 | **45,626** | 20,886 |
| Pledged bank deposits | 23 | **65,131** | 15,995 |
| Cash and cash equivalents | 23 | **10,858** | 11,949 |
| | | **214,836** | 130,111 |
| CURRENT LIABILITIES | | | |
| Trade payables | 24 | **3,018** | 4,083 |
| Other payables and accruals | 25 | **24,169** | 22,217 |
| Deferred revenue | | **2,657** | 3,083 |
| Tax payable | | **3,528** | 3,359 |
| Interest-bearing bank borrowings | 26 | **58,411** | 26,168 |
| | | **91,783** | 58,910 |
| NET CURRENT ASSETS | | **123,053** | 71,201 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **131,035** | 77,536 |
| MINORITY INTERESTS | | **(2,519)** | (3,437) |
| | | **128,516** | 74,099 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 27 | **80,000** | 200 |
| Reserves | 29(a) | **48,516** | 73,899 |
| | | **128,516** | 74,099 |

**Ding Wei Ming**
*Director*

**Shang Gang**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

| | Notes | Issued share capital HK$'000 | Share premium account HK$'000 | Capital reserve HK$'000 | Reserve funds HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2001 | | 200 | 37,188 | 7,236 | 1,541 | 7,818 | 53,983 |
| Profit for the year | | – | – | – | – | 20,116 | 20,116 |
| Transfer from retained profits | 29(a) | – | – | – | 311 | (311) | – |
| At 31 December 2001 and 1 January 2002 | | 200 | 37,188 | 7,236 | 1,852 | 27,623 | 74,099 |
| Issue of shares | 27 | 14 | 14,394 | – | – | – | 14,408 |
| Special dividend | 13 | – | – | – | – | (8,714) | (8,714) |
| New issue and placing of shares to public | 27 | 17,200 | 48,160 | – | – | – | 65,360 |
| Capitalisation of share premium account | 27 | 62,586 | (62,586) | – | – | – | – |
| Share issue expenses | 27 | – | (17,188) | – | – | – | (17,188) |
| Profit for the year | | – | – | – | – | 551 | 551 |
| Transfer from retained profits | 29(a) | – | – | – | 1,659 | (1,659) | – |
| At 31 December 2002 | | 80,000 | 19,968 | 7,236 | 3,511 | 17,801 | 128,516 |

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

| | Notes | 2002<br>HK$'000 | 2001<br>HK$'000<br>(Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **1,721** | 23,094 |
| Adjustments for: | | | |
| Finance costs | 10 | **2,106** | 1,762 |
| Loss on disposal of fixed assets | 7 | **613** | 47 |
| Inventories written off | 7 | **183** | – |
| Interest income | 6 | **(695)** | (, 270) |
| Depreciation | 7 | **1,909** | 2,207 |
| Provision for bad and doubtful debts | 7 | **4,136** | – |
| Amortisation of software development costs | 7 | **457** | – |
| Operating profit before working capital changes | | **10,430** | 26,840 |
| Decrease/(increase) in amounts due from directors | | **7,601** | (6,898) |
| Decrease/(increase) in an amount due from a related company | | **948** | (56) |
| Increase in inventories | | **(2,871)** | (5,773) |
| Increase in trade receivables | | **(21,937)** | (15,284) |
| Increase in prepayments, deposits and other receivables | | **(24,740)** | (12,323) |
| Decrease in an amount due to a related company | | **–** | (104) |
| Decrease in trade payables | | **(1,065)** | (4,088) |
| Increase in other payables and accruals | | **1,952** | 7,342 |
| Decrease in deferred revenue | | **(426)** | (1,632) |
| Cash used in operations | | **(30,108)** | (11,976) |
| Interest received | | **695** | 270 |
| Interest paid | | **(2,106)** | (1,762) |
| Mainland China corporate income tax paid | | **(1,218)** | (394) |
| Net cash outflow from operating activities | | **(32,737)** | (13,862) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | 15 | **(2,114)** | (245) |
| Additions to software development costs | 16 | **(2,512)** | (1,370) |
| Decrease/(increase) in pledged bank deposits | | **(49,136)** | 8,776 |
| Net cash inflow/(outflow) from investing activities | | **(53,762)** | 7,161 |

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issue of shares | 27 | **79,768** | – |
| Share issue expenses | 27 | **(17,188)** | – |
| Dividend paid | 13 | **(8,714)** | – |
| Dividend paid to minority shareholder of a subsidiary | | **(701)** | – |
| New bank loans | | **62,150** | 40,186 |
| Repayment of bank loans | | **(29,907)** | (26,168) |
| Net cash inflow from financing activities | | **85,408** | 14,018 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(1,091)** | 7,317 |
| Cash and cash equivalents at beginning of year | | **11,949** | 4,632 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **10,858** | 11,949 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 23 | **10,858** | 11,949 |

# BALANCE SHEET

31 December 2002

| | Notes | **2002 HK$'000** | 2001 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 17 | **96,853** | 53,017 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | 22 | **13,824** | – |
| Cash and cash equivalents | 23 | **5,462** | – |
| | | **19,286** | – |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 25 | **648** | – |
| NET CURRENT ASSETS | | **18,638** | – |
| | | **115,491** | 53,017 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 27 | **80,000** | 200 |
| Reserves | 29(b) | **35,491** | 52,817 |
| | | **115,491** | 53,017 |

**Ding Wei Ming**
*Director*

**Shang Gang**
*Director*

## 1. GROUP REORGANISATION

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 reorganisation (the "Reorganisation") to rationalise the corporate structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding Company of the subsidiary companies now comprising the Group on 23 October 2000. This was accomplished by acquiring the entire issued share capital of Datasys (BVI) Limited ("Datasys BVI") which is the intermediate holding Company of the other subsidiaries set out in note 17 to the financial statements. Further details of the Reorganisation are set out in the Company's prospectus dated 31 July 2002 (the "Prospectus"). The ordinary shares of the Company were listed on the GEM of the Stock Exchange on 16 August 2002.

## 2. CORPORATE INFORMATION

The registered office of Datasys Technology Holdings Limited is P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The principal place of business of Datasys Technology Holdings Limited is 2nd floor, Commercial Mansion, No.11 Zhongguancun Nan Street, Haidian District, Beijing 100081.

During the year, the Group was involved in the provision of information technology ("IT") contract services and systems development and integration.

## 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

## 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 4 and in note 30(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 28 to the financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of preparation*

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

*Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

*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 profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

*Negative goodwill*

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

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

*Negative goodwill (continued)*

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the consolidated capital reserve. Negative goodwill on acquisitions subsequent 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

*Related parties*

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.

*Impairment of assets*

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

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

*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 costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the 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 after considering its estimated residual value, over the following estimated useful lives:

| | |
|---|---|
| Leasehold improvements | Over the lease terms |
| Furniture and fixtures | 5 years |
| Computer equipment, software and office equipment | 5 years |
| Motor vehicles | 5 years |

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

*Software development costs*

All research costs are charged to the profit and loss account 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.

Software development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding three years, commencing from the date when the software is put into commercial production.

*Inventories*

Inventories comprise purchased merchandise and contracts in progress, and are stated at the lower of cost and net realisable value. Contracts in progress comprise purchase merchandise and direct costs incurred for IT contract work in progress. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to disposal.

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

*Trade receivables*

Trade receivables, which generally have credit terms of 7 to 90 days, are recognised and carried at the original invoiced amount, less provision for doubtful debts when the collection of the full amount is no longer probable. Bad debts are written off as incurred.

*Deferred revenue*

Deferred revenue represents fees received in advance from customers. Revenue is recognised and deferred revenue is released to the profit and loss account when the corresponding services are rendered.

*Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

*Employee benefits*

*Retirement benefits scheme*

The Company and Datasys BVI have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 19% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

*Deferred tax*

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

*Foreign currencies*

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts 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 ruling at the balance sheet date. There resulting translation differences 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 ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the revised SSAP 15 has resulted in revisions to the layout of the cash flow statement, as detailed in note 30(a) to the financial statements, but has had no material effect on the previously-reported cash flows of the prior year.

*Cash and cash equivalents*

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise 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 term 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.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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

*Provisions*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

*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:

(a) from the provision of professional IT contract services, based on the stage of completion of the respective IT contracts, which is determined with reference to the terms of the contracts;

(b) from systems development and integration, based on the stage of completion of the respective contracts, which is determined with reference to the terms of the contracts;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) value-added tax refunds, when the acknowledgement of the refund from the tax bureau has been received.

*Dividends*

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 5. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business 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 the other business segments. The Group's business segments are as follows:

(a) the provision of IT contract services; and

(b) systems development and integration.

## 5. SEGMENT INFORMATION (continued)

During the year, over 90% of the Group's turnover and results were generated from customers in Mainland China. Accordingly, a further analysis of the Group's turnover, assets and other segment information by geographical segment is not presented in these financial statements. An analysis of the Group's turnover and results by principal activity is as follow:

| | Provision of IT contract services | | Systems development and integration | | Elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2002 HK$'000** | 2001 HK$'000 | **2002 HK$'000** | 2001 HK$'000 | **2002 HK$'000** | 2001 HK$'000 | **2002 HK$'000** | 2001 HK$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **23,314** | 31,510 | **79,025** | 95,734 | **–** | – | **102,339** | 127,244 |
| Intersegment sales | **15,681** | 6,151 | **–** | – | **(15,681)** | (6,151) | **–** | – |
| Total | **38,995** | 37,661 | **79,025** | 95,734 | **(15,681)** | (6,151) | **102,339** | 127,244 |
| Segment results | **13,554** | 19,809 | **14,184** | 27,509 | **–** | – | **27,738** | 47,318 |
| Unallocated income and expenses | | | | | | | **(23,911)** | (22,462) |
| Profit from operating activities | | | | | | | **3,827** | 24,856 |
| Finance costs | | | | | | | **(2,106)** | (1,762) |
| Profit before tax | | | | | | | **1,721** | 23,094 |
| Tax | | | | | | | **(1,387)** | (1,958) |
| Profit before minority interests | | | | | | | **334** | 21,136 |
| Minority interests | | | | | | | **217** | (1,020) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | **551** | 20,116 |

Unallocated items comprise mainly other revenue and corporate expenses.

## 5. SEGMENT INFORMATION (continued)

An analysis of the Group's assets and liabilities by business segment is as follows:

| | Provision of IT contract services | | Systems development and integration | | Elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **19,078** | 23,658 | **88,340** | 72,891 | **–** | – | **107,418** | 96,549 |
| Unallocated assets | | | | | | | **115,400** | 39,897 |
| Total assets | | | | | | | **222,818** | 136,446 |
| Segment liabilities | **6,885** | 5,541 | **25,789** | 27,285 | **–** | – | **32,674** | 32,826 |
| Unallocated liabilities | | | | | | | **59,109** | 26,084 |
| Total liabilities | | | | | | | **91,783** | 58,910 |
| Other segment information | | | | | | | | |
| Depreciation | **1,434** | 1,447 | **201** | 330 | **–** | – | **1,635** | 1,777 |
| Unallocated depreciation | | | | | | | **274** | 430 |
| | | | | | | | **1,909** | 2,207 |
| Amortisation | **457** | – | **–** | – | **–** | – | **457** | – |
| | | | | | | | **2,366** | 2,207 |
| Capital expenditure | **4,342** | 1,936 | **284** | 33 | **–** | – | **4,626** | 599 |

Segment assets and liabilities comprise trade receivables, inventories, prepayments, trade payables, deferred revenue and other payables. Unallocated items represent mainly corporate assets and liabilities.

## 6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered, excluding value-added tax and business tax. An analysis of turnover and other revenue is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Turnover: | | |
| Provision of IT contract services | **23,314** | 31,510 |
| Systems development and integration | **79,025** | 95,734 |
| | **102,339** | 127,244 |
| Other revenue: | | |
| Interest income | **695** | 270 |
| Value-added tax refunds | **2,237** | 2,429 |
| Others | **841** | – |
| | **3,773** | 2,699 |
| | **106,112** | 129,943 |

## 7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging and crediting:

| | | Group | |
|---|---|---|---|
| | | **2002** | 2001 |
| | Notes | **HK$'000** | HK$'000 |
| Auditors' remuneration | | **483** | 23 |
| Cost of inventories sold | | **64,841** | 70,032 |
| Cost of services provided | | **9,760** | 11,701 |
| Staff costs, including directors' remuneration in note 8 below: | | | |
| Wages and salaries | | **14,251** | 14,296 |
| Retirement benefits scheme contributions | | **1,158** | 217 |
| | | **15,409** | 14,513 |
| Depreciation | 15 | **1,909** | 2,207 |
| Inventories written off | | **183** | – |
| Amortisation of software development costs* | 16 | **457** | – |
| Minimum lease payments under operating leases in respect of buildings | | **3,352** | 3,050 |
| Provision/(write-back of provision) for bad and doubtful debts, net | | **(650)** | 198 |
| Loss on disposal of fixed assets | | **613** | 47 |

* The amortisation of software development costs for the year is included in "Cost of sales" on the face of the profit and loss account.

## 8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Fees for independent non-executive directors | **140** | – |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,434** | 1,541 |
| Retirement benefits scheme contributions | **5** | 4 |
| | **1,439** | 1,545 |
| | **1,579** | 1,545 |

The seven executive directors received remunerations of HK$324,871 (2001: HK$324,091), HK$319,263 (2001: HK$318,494), HK$179,804 (2001: HK$183,904), HK$184,684 (2001: HK$185,047), HK$179,439 (2001: HK$179,439), HK$173,648 (2001: HK$174,439) and HK$76,773 (2001: HK$174,951) respectively, for the year ended 31 December 2002.

Two independent non-executive directors received remuneration of HK$84,112 (2001: Nil) and HK$56,014 (2001: Nil), respectively for the year ended 31 December 2002.

After considering the results of the Group for 2002, the directors waived remuneration of HK$1,641,308 (2001: Nil) for the year, which represented the differences between the salaries under their service contracts (effective since 1 July 2002) for the period from 1 July 2002 to 31 December 2002 and the basic salaries drawn by each director before 1 July 2002.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year comprised five directors (2001: five), details of whose remuneration are set out in note 8 above.

## 10. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **2,106** | 1,762 |

## 11. TAX

| | Group 2002 HK$'000 | Group 2001 HK$'000 |
|---|---|---|
| Mainland China corporate income tax charge | **600** | 1,958 |
| Underprovision in prior years | **787** | – |
| Tax charge for the year | **1,387** | 1,958 |

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong profits tax has been made during the year ended 31 December 2002 (2001: Nil). 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 year.

Datasys DIS obtained a "New Technology Enterprise" certificate on 18 July 2000 and it is therefore subject to Mainland China corporate income tax at a rate of 15%, pursuant to an approval granted by the local tax authority on 21 November 2000. In addition, Datasys DIS is fully exempted from Mainland China local income tax.

Pursuant to an approval obtained from the local tax authority, DIS Aipu was fully exempted from Mainland China corporate income tax for the period from 1 July 1998 to 31 December 2000, was subject to corporate income tax at a rate of 7.5% from 2001 to 2003, and is subject to a rate of 15% on its taxable income thereafter. In addition, DIS Aipu is fully exempted from Mainland China local income tax.

Deferred tax has not been provided as there were no significant timing differences as at 31 December 2002 (2001: Nil).

## 12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, was HK$8,608,000 (2001: Nil).

## 13. DIVIDEND

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Special dividend paid: HK$4.36 (2001: Nil) per ordinary share | **8,714** | – |

A special dividend of approximately HK$8,713,500 was declared and approved by the board of directors of the Company on 24 July 2002 for the benefit of the shareholders whose names appeared on the register of members of the Company on 31 December 2001 prior to the listing.

## 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$551,000 (2001: HK$20,116,000), and the weighted average of 673,976,987 (2001: 586,133,333) ordinary shares in issue during the year, as adjusted to reflect the issue of shares in connection with the Reorganisation as further described in note 27 to the financial statements.

A diluted earnings per share amount for the year ended 31 December 2002 has not been disclosed as no diluting events existed during the year (2001: Nil).

## 15. FIXED ASSETS

**Group**

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer equipment, software and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2002 | 913 | 1,120 | 8,649 | 1,151 | 11,833 |
| Additions | 638 | 56 | 1,420 | – | 2,114 |
| Disposals | (913) | – | – | – | (913) |
| At 31 December 2002 | 638 | 1,176 | 10,069 | 1,151 | 13,034 |
| Accumulated depreciation: | | | | | |
| At 1 January 2002 | 240 | 696 | 4,838 | 1,094 | 6,868 |
| Provided during the year | 60 | 246 | 1,555 | 48 | 1,909 |
| Disposals | (300) | – | – | – | (300) |
| At 31 December 2002 | – | 942 | 6,393 | 1,142 | 8,477 |
| Net book value: | | | | | |
| At 31 December 2002 | 638 | 234 | 3,676 | 9 | 4,557 |
| At 31 December 2001 | 673 | 424 | 3,811 | 57 | 4,965 |

## 16. SOFTWARE DEVELOPMENT COSTS

| | Group 2002 HK$'000 |
|---|---|
| Cost: | |
| At 1 January 2002 | **1,370** |
| Additions | **2,512** |
| At 31 December 2002 | **3,882** |
| Accumulated amortisation: | |
| At 1 January 2002 | **–** |
| Amortised during the year | **457** |
| At 31 December 2002 | **457** |
| Net book value: | |
| At 31 December 2002 | **3,425** |
| At 31 December 2001 | **1,370** |

## 17. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2002 HK$'000** | 2001 HK$'000 |
| Unlisted shares, at cost | **53,017** | 53,017 |
| Amounts due from subsidiaries | **43,836** | – |
| | **96,853** | 53,017 |

## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries, which were acquired pursuant to the Reorganisation set out in note 1 to the financial statements, are as follows:

| Name | Place of registration/ incorporation and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Datasys (BVI) Limited ("Datasys BVI") | British Virgin Islands/ Hong Kong | US$20,000 | 100 | – | Investment holding, provision of systems development and integration support services |
| Beijing DIS Electronic Datasystem Company Limited ("Datasys DIS") | Mainland China | US$2,000,000 | – | 92.5 | Investment holding, systems development and integration, and provision of professional information technology ("IT") contract services |
| Beijing DIS Aipu Company Limited ("DIS Aipu") | Mainland China | RMB2,000,000 | – | 94 | Provision of professional IT contract services |

The amounts due from the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 18. DUE FROM DIRECTORS

Particulars of the Group's amounts due from directors are as follows:

| | 31 December 2002 | Maximum amount outstanding during the year | 1 January 2002 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Mr. Ding Wei Ming | 1,403 | 6,448 | 6,448 |
| Mr. Shang Gang | 4,120 | 7,068 | 7,068 |
| Ms. Cao Ze Lan | 98 | 98 | 93 |
| Mr. Li Wei Min | 387 | 387 | – |
| | 6,008 | | 13,609 |

The amounts due from directors are unsecured, interest-free and have no fixed terms of repayment. The delay in the settlement of these amounts was mainly due to the time required to make arrangements of transferring certain company equities owned by the directors as the settlement of these amounts.

## 19. DUE FROM A RELATED COMPANY

Particulars of the Group's amount due from a related company is as follows:

| | 31 December 2002 | Maximum amount outstanding during the year | 1 January 2002 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Central DIS Datasystem Company Limited | 3,741 | 4,689 | 4,689 |

Central DIS Datasystem Company Limited owns a 7.5% equity interest in Datasys DIS, a subsidiary of the Group. The amount due from the related company, representing an advance, is unsecured, interest-free and has no fixed terms of repayment. The delay in the settlement of this amount was mainly due to the time required to make arrangements of transferring the equity interest of Central DIS Datasystem Company Limited in Datasys DIS as the settlement of this amount.

## 20. INVENTORIES

| | Group 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Computer equipment | **5,493** | 2,974 |
| Contracts in progress | **4,643** | 4,338 |
| Others | **–** | 136 |
| | **10,136** | 7,448 |

At the respective balance sheet dates, no inventories were stated at net realisable value.

## 21. 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 bad and doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off as incurred.

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

| | Group 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Outstanding balances aged: | | |
| 0 to 30 days | **26,402** | 6,758 |
| 31 to 60 days | **10,352** | 10,607 |
| 61 to 90 days | **6,428** | 12,326 |
| 91 to 180 days | **11,525** | 5,449 |
| 181 days to 1 year | **178** | 12,420 |
| Between 1 to 2 years | **21,237** | 8,575 |
| Over 2 years | **3,518** | 1,568 |
| Less: Provision for bad and doubtful debts | **(6,304)** | (2,168) |
| | **73,336** | 55,535 |

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments | **3,521** | 8,624 | **–** | – |
| Deposits | **13,095** | 5,551 | **7,373** | – |
| Other receivables | **29,010** | 6,711 | **6,451** | – |
| | **45,626** | 20,886 | **13,824** | – |

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **75,989** | 27,944 | **5,462** | – |
| Less: Pledged for bank loans (note 26) | **(63,609)** | (13,155) | **–** | – |
| Pledged for securing project bidding | **(1,522)** | (2,840) | **–** | – |
| Cash and cash equivalents | **10,858** | 11,949 | **5,462** | – |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3.2 million (2001: HK$9.4 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 24. TRADE PAYABLES

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

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Outstanding balances aged: | | |
| Within 180 days | **3,018** | 194 |
| Between 181 days to 1 year | **–** | – |
| Between 1 to 2 years | **–** | 32 |
| Over 2 years | **–** | 3,857 |
| | **3,018** | 4,083 |

## 25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other payables | **22,249** | 21,549 | **–** | – |
| Accruals | **1,920** | 668 | **648** | – |
| | **24,169** | 22,217 | **648** | – |

## 26. INTEREST-BEARING BANK BORROWINGS

| | **2002** | 2001 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank loans wholly repayable within one year, secured | **58,411** | 26,168 |

As at 31 December 2002, bank borrowings of RMB62.5 million (equivalent to HK$58.4 million) (2001: RMB13 million (equivalent to HK$12.2 million)) were secured by time deposits of approximately US$8.2 million (equivalent to HK$63.6 million) (2001: US$1.7 million (equivalent to HK$13.2 million)) (note 23). The remaining borrowings balance of RMB15.0 million (equivalent to HK$14.0 million) as at 31 December 2001 was secured by a corporate guarantee executed by a non-related company.

## 27. SHARE CAPITAL

| | | 2002 | | 2001 | |
|---|---|---|---|---|---|
| | | **Number of shares** | **Nominal value** | Number of shares | Nominal value |
| **Shares** | Note | | **HK$** | | HK$ |
| Authorised: | | | | | |
| Ordinary shares of HK$0.10 each | (ii) | **2,000,000,000** | **200,000,000** | 1,000,000,000 | 100,000,000 |
| Issued and fully paid: | | | | | |
| Ordinary shares of HK$0.10 each | | **800,000,000** | **80,000,000** | 2,000,000 | 200,000 |

During the year, the movements in the share capital were as follows:

(i) On 11 June 2002, 142,857 ordinary shares of HK$0.10 each were allotted and issued to an independent third party for a total cash consideration of HK$14,408,000.

(ii) On 24 July 2002, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of 1,000,000,000 additional ordinary shares of HK$0.10 each ranking pari passu with the existing shares, pursuant to the Reorganisation.

(iii) On 16 August 2002, 172,000,000 ordinary shares of HK$0.10 each were issued to the public by way of a new issue and placement of shares at a price of HK$0.38 per share, for a total cash consideration of HK$65,360,000, before related issuing expenses.

(iv) On 16 August 2002, 625,857,143 ordinary shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the Company's shares whose names appeared on the register of members of the Company at the close of business on 10 July 2002 by the capitalisation of a sum HK$62,585,714 of the share premium account of the Company, pursuant to shareholders' resolution of the Company passed on 29 July 2002.

## 27. SHARE CAPITAL (continued)

A summary of the transactions during the year, with reference to the above movements in the Company's issued ordinary share capital, is as follows:

| | Notes | Number of shares in issue | Issued shares capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2001 and 31 December 2001 and 1 January 2002 | | 2,000,000 | 200 | 37,188 | 37,388 |
| Issue of shares | (i) | 142,857 | 14 | 14,394 | 14,408 |
| New issue and placing of shares to public | (iii) | 172,000,000 | 17,200 | 48,160 | 65,360 |
| Capitalisation of share premium account | (iv) | 625,857,143 | 62,586 | (62,586) | – |
| | | 800,000,000 | 80,000 | 37,156 | 117,156 |
| Share issue expenses | | – | – | (17,188) | (17,188) |
| At 31 December 2002 | | 800,000,000 | 80,000 | 19,968 | 99,968 |

## 28. SHARE OPTION SCHEME

Pursuant to the pre-IPO share option scheme adopted by the Company on 29 July 2002, the directors may, at their discretion, invite any employee, officer, agent, consultant or representative of the Group ("participants"), 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 of directors. The purpose of the share option scheme is to provide incentives to the eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 29 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be issued under the share option scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares which may be granted under the share option scheme of the Company must not exceed 80,000,000, being 10% of the issued share capital as at the listing of the Company's shares on the GEM on 16 August 2002. The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not less than 3 years and not later than 10 years from the date of the offer of the share options or the expiry date of the share option scheme, if earlier.

The maximum number of shares issuable under share options to each eligible participant in the scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive management shareholder or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

## 28. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, and may not be less than the highest of:

(i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets 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 quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share of the Company.

As at the date of these financial statements, no options have been granted by the Company under the share option scheme of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 29. RESERVES

*(a) Group*

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

**Exchange reserve**

The revised SSAP 11 was adopted during the year, as explained in note 3 and under the heading "Foreign currencies" in note 4 to the financial statements. As a result, the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, rather than at the exchange rates ruling at the balance sheet date, as was previously the case. This change in accounting policy, however, has had no material effect on the previously-reported amounts for prior years.

**Share premium account**

The Group's share premium account originally represented the difference between the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the Reorganisation set out in note 1 to the financial statements, prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

## 29. RESERVES (continued)

*(a) Group (continued)*

**Capital reserve**

Negative goodwill arising on the acquisition of subsidiaries in prior years, amounting to HK$7,236,000 (2001: HK$7,236,000) remains credited to the consolidated capital reserve as explained in the accounting policy for "Negative goodwill" in note 4 to the financial statements.

**Reserve funds**

Pursuant to the relevant laws and regulations for Sino-foreign equity joint ventures in Mainland China and the articles of association of Datasys DIS, Datasys DIS is required to appropriate an enterprise reserve fund, an enterprise expansion fund and a staff welfare fund from its annual statutory profit after tax under accounting principles generally accepted in Mainland China ("PRC GAAP"). The appropriations to the reserve funds are determined at the sole discretion of its board of directors after offsetting any prior years' losses. Such reserve funds are restricted as to use.

The enterprise reserve fund can be used to offset the accumulated losses of Datasys DIS. No appropriation to the enterprise reserve fund was made during the year ended 31 December 2002. An amount of HK$104,000 was appropriated to the enterprise reserve fund during the year ended 31 December 2001.

The enterprise expansion fund can be used for the expansion of Datasys DIS and/or to increase the capital of Datasys DIS upon the approval of the relevant authorities. No appropriation to the enterprise expansion fund was made during the year ended 31 December 2002. An amount of HK$207,000 was appropriated to the enterprise expansion fund during the year ended 31 December 2001.

The staff welfare fund is used for the collective welfare of the employees of Datasys DIS. No appropriation to the staff welfare fund was made by Datasys DIS for the years ended 31 December 2002 and 2001.

Pursuant to the relevant laws and regulations of Mainland China and the articles of association of DIS Aipu, DIS Aipu is required to appropriate a statutory common reserve of 10%, a discretionary common reserve at a rate solely determined by its board of directors and a statutory public welfare fund at 5% from its annual statutory profit after tax under PRC GAAP after offsetting any prior years' losses. Such reserves are restricted as to use.

The statutory common reserve and discretionary common reserve can be used to offset the accumulated losses and increase the capital of DIS Aipu. During the year, DIS Aipu appropriated HK$1,106,000 (2001: Nil) to the statutory common reserve. No appropriation to the discretionary common reserve was made by DIS Aipu for the years ended 31 December 2002 and 2001.

## 29. RESERVES (continued)

*(a) Group (continued)*

**Reserve funds (continued)**

The statutory public welfare fund is used for the collective welfare of the employees of DIS Aipu. During the year, DIS Aipu appropriated HK$553,000 (2001: Nil) to the statutory public welfare fund.

*(b) Company*

| | Notes | Share premium account HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2001 | | 52,817 | – | 52,817 |
| Profit for the year | | – | – | – |
| At 31 December 2001 and 1 January 2002 | | 52,817 | – | 52,817 |
| Issue of shares | 27 | 14,394 | – | 14,394 |
| Special dividend | 13 | – | (8,714) | (8,714) |
| New issue and placing of shares to public | 27 | 48,160 | – | 48,160 |
| Capitalisation of share premium account | 27 | (62,586) | – | (62,586) |
| Share issue expenses | 27 | (17,188) | – | (17,188) |
| Profit for the year | | – | 8,608 | 8,608 |
| At 31 December 2002 | | 35,597 | (106) | 35,491 |

**Share premium account**

The Company's share premium account originally represented the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2000 Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividend, the Company will be in a position to pay off its debts as 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.

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) *Prior year adjustments*

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and interest paid and received are now included in cash flows from operating activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

(b) *Major non-cash transaction*

The Reorganisation of the Group in preparation for the public listing of the Company's shares involved the capitalisation of approximately HK$62,585,714 as share capital, as detailed in note 27 to the financial statements.

## 31. COMMITMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2002** | 2001 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,380** | 1,720 |
| In the second to third years, inclusive | **403** | 287 |
| | **1,783** | 2,007 |

Save as foresaid, the Group and the Company did not have any other significant commitments at 31 December 2002.

## 32. POST BALANCE SHEET EVENT

On 26 February 2003, Datasys DIS drew down a short-term bank loan of RMB10 million (equivalent to HK$9.3 million) which is secured by a corporate guarantee executed by a non-related company.

## 33. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 May 2003.

# SUMMARY FINANCIAL INFORMATION

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2002** | 2001 | 2000 |
| | **HK$'000** | HK$'000 | HK$'000 |
| **Results** | | | |
| Turnover | **102,339** | 127,244 | 88,712 |
| Profit before taxation | **1,721** | 23,094 | 13,044 |
| Taxation | **(1,387)** | (1,958) | (733) |
| Net profit attributable to shareholders | **551** | 20,116 | 7,839 |

| | As at 31 December | | |
|---|---|---|---|
| | **2002** | 2001 | 2000 |
| | **HK$'000** | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | |
| Total assets | **222,818** | 136,446 | 98,210 |
| Total liabilities | **94,302** | 62,347 | 44,227 |
| Balance of shareholders' fund | **128,516** | 74,099 | 53,983 |

# Datasys Technology Holdings Limited
# 迪斯數碼科技集團有限公司

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

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of shareholders of Datasys Technology Holdings Limited (the "Company") will be held at meeting room, 2nd Floor, Commercial Mansion, No. 11 Zhongguancun Nan Street, Haidian District, Beijing 100081, on Monday, 30 June 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2002;

2. To re-elect directors and authorize the board of directors (the "Board") to fix their remuneration;

3. To re-appoint the auditors, Messrs. Ernst & Young, and to authorise the Board to fix their remuneration; and

As special business to consider and, if thought fit, pass the following ordinary resolutions:

**ORDINARY RESOLUTIONS**

4. "**THAT**:

   (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power beand is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, and options which might require the exercise of such power after the end of the Relevant Period (as hereinafter defined);

   (c) the aggregate nominal amount of share capital allotted, or agreed conditionally or unconditionally to be allotted (whether pursuant to the exercise of options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or

(iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

(d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law or by the Company's Articles of Association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting;

and "Rights Issue "means an offer of shares open fora period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

5. "**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as herein after defined) of all the powers of the Company to repurchase shares in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or of any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong under the Hong Kong Code on Share Repurchase (as amended from time to time), be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law or by the Company's articles of association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. "**THAT** conditional upon the passing of Ordinary Resolutions No. 4 and 5 set out in this notice convening this meeting, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the directors of the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 4 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the shares capital of the Company repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By Order of the Board
**Ding Wei Ming**
*Chairman*

6 June 2003

# NOTICE OF ANNUAL GENERAL MEETING

*Principal place of business*
*in Hong Kong:*
Room 2109
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company. Proxy forms must be deposited with the Company's Branch Share Registrar and transfer office in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting.

2. The register of members of the Company will be closed from Wednesday, 25 June 2003 to 30 June 2003 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting convened by the above, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong Branch Registrar, Tengis Limited at the above address not later than 4:30 p.m. on 24 June 2003.

3. An Explanatory Statement in relation to Ordinary Resolutions No. 4 and 5 will be sent to shareholders together with the Company's Annual Report.