# WINSAN (CHINA) INVESTMENT GROUP COMPANY LIMITED
# 運盛(中國)投資集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*
*(於開曼群島註冊成立之有限公司)*

WINSAN

## Interim Report 2002
## 二零零二年中期報告

The Board of Directors of Winsan (China) Investment Group Company Limited (the "Company") hereby announces the Interim Financial Statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June 2002. The Interim Financial Statements comprising the consolidated profit and loss accounts, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the Group, all of which are unaudited and condensed, together with the relevant notes are set out as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*For the six months ended 30th June 2002*

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30th June** | |
| | | **2002** | 2001 |
| | *Note* | **HK$'000** | HK$'000 |
| Turnover (net of business tax) | 2 | **171** | 139,972 |
| Cost of sales | | **(721)** | (117,740) |
| Gross (loss)/profit | | **(550)** | 22,232 |
| Other revenue | 2 | **1** | 354 |
| Selling expenses | | **(4,083)** | (6,528) |
| Administrative expenses | | **(11,049)** | (31,117) |
| Amortisation of goodwill | 7 | **(1,569)** | – |
| Loss on disposal of leasehold land and buildings | | **–** | (6,383) |
| Provision for diminution in value of investment properties | | **–** | (32,000) |
| Operating loss | 3 | **(17,250)** | (53,442) |
| Finance costs | | **(1,900)** | (14,113) |
| Loss before taxation | | **(19,150)** | (67,555) |
| Taxation | 5 | **–** | (2,003) |
| Loss after taxation | | **(19,150)** | (69,558) |
| Minority interests | | **815** | 360 |
| Loss attributable to shareholders | | **(18,335)** | (69,198) |
| Loss per share – basic | 6 | **HK(1.65) cents** | HK(6.46) cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**

*As at 30th June 2002*

| | Note | Unaudited 30th June 2002 HK$'000 | Audited 31st December 2001 HK$'000 |
|---|---|---|---|
| **Goodwill** | 7 | **60,686** | 62,255 |
| **Fixed assets** | 8 | **11,136** | 13,973 |
| **Current assets** | | | |
| Inventories | | **12,561** | 11,917 |
| Amounts due from customers for contract work | 9 | **3,158** | 3,772 |
| Trade and other receivables | 10 | **7,034** | 7,245 |
| Bank balances and cash | | **940** | 2,976 |
| | | **23,693** | 25,910 |
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 9 | **701** | 701 |
| Amounts due to related companies | 11 | **58,592** | 47,526 |
| Trade and other payables | 12 | **13,616** | 16,967 |
| Current portion of long-term liabilities | 13 | **5,325** | 3,125 |
| Short-term loans, unsecured | | **13,200** | 13,200 |
| Bank overdrafts, unsecured | | **1,605** | – |
| | | **93,039** | 81,519 |
| **Net current liabilities** | | **(69,346)** | (55,609) |
| | | **2,476** | 20,619 |
| Represented by: | | | |
| **Share capital** | 14 | **111,320** | 111,320 |
| **Reserves** | | **(115,152)** | (96,817) |
| **(Deficits on shareholders' funds)/ shareholders' funds** | | **(3,832)** | 14,503 |
| **Minority interests** | | **263** | 1,078 |
| **Long-term liabilities** | 13 | **6,045** | 5,038 |
| | | **2,476** | 20,619 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th June 2002*

| | Unaudited Six months ended 30th June | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Net cash used in operating activities | **(6,911)** | (55,113) |
| Net cash from investing activities | **1,094** | 85,299 |
| Net cash from financing | **1,619** | 16,109 |
| **(Decrease)/increase in cash and cash equivalents** | **(4,198)** | 46,295 |
| **Cash and cash equivalents at 1st January** | **1,945** | 77,734 |
| **Cash and cash equivalents at 30th June** | **(2,253)** | 124,029 |
| **Analysis of cash and cash equivalents** | | |
| Bank balances and cash (net of fixed deposits with original maturity over three months) | **940** | 161,889 |
| Bank overdrafts and loans with original maturity within three months | **(3,193)** | (37,860) |
| | **(2,253)** | 124,029 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June 2002*

| | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Reserves on consolidation HK$'000 | Surplus reserves HK$'000 | Exchange fluctuation reserves HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
| At 1st January 2002 | **111,320** | **616,669** | **–** | **–** | **17** | **(713,503)** | **14,503** |
| Loss for the period | **–** | **–** | **–** | **–** | **–** | **(18,335)** | **(18,335)** |
| At 30th June 2002 | **111,320** | **616,669** | **–** | **–** | **17** | **(731,838)** | **(3,832)** |
| At 1st January 2001 | 106,810 | 622,554 | 30,000 | 22,382 | (6,860) | (290,857) | 484,029 |
| Loss for the period | – | – | – | – | – | (69,198) | (69,198) |
| Issue of ordinary shares | 310 | 226 | – | – | – | – | 536 |
| At 30th June 2001 | 107,120 | 622,780 | 30,000 | 22,382 | (6,860) | (360,055) | 415,367 |

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

As at 30th June 2002, the Group had net deficit of HK$3,832,000 and net current liabilities of HK$69,346,000. The accounts have been prepared on a going concern basis on the assumption that the Group will have the continued financial support from its major shareholder, Mr Chan Chak Shing. In this connection, Mr Chan Chak Shing has indicated that he will provide the necessary funding to the Group to settle its liabilities as and when they fall due.

The balance sheet of the Group includes, inter alia, inventories of HK$12,417,000, accounts receivable of HK$3,023,000, fixed assets of HK$7,457,000 and goodwill of HK$60,686,000 which are attributable to Dico. The operation of Dico has not generated significant revenues in the six months ended 30th June 2002. This is mainly attributable to the fact that the cable television industry in the PRC has been on a standstill in the first six months of 2002, awaiting the SABFT (the State Administration of Broadcasting, Film and Television) to finalise the required specifications and standards. The management believes that if such specifications and standards can be finalised in the next six months and beneficial to Dico's business development, then the operations of Dico may improve as a result. Accordingly, no further provision has been made against these balances.

The Interim Financial Statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Interim Financial Statements should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2001.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the Annual Financial Statements for the year ended 31st December 2001 except that the Group has adopted certain new or revised accounting policies issued by HKSA which are effective for accounting periods commencing on or after 1st January 2002 as follows:

| | |
|---|---|
| SSAP 1 (revised) | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation |
| SSAP 15 (revised) | : Cash flow statements |
| SSAP 25 (revised) | : Interim financial reporting |
| SSAP 34 | : Employee benefits |

The adoption of these new or revised SSAPs does not have a material effect on the comparative figures of the accounts.

### 2. Turnover and segment information

The Group was previously engaged in property development, investment and management in the PRC and Hong Kong, the operation of network based transport logistic services ("Transonline") and the provision of gas installation services in the PRC. In October 2001, the Group disposed of its property and gas related operations in the PRC and acquired a 70% interest in Shenzhen DIC Information Technologies Company Limited ("Dico"), a company established in the PRC. Commencing November 2001, the principal activities of the Group comprise the operation of Transonline and the provision of fully-integrated broadband and cable television related platform and equipment for cable television and telecommunication services operators.

2. **Turnover and segment information** *(continued)*

| | Six months ended 30th June | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Turnover | | |
| System integration services income | **70** | – |
| Sale of goods | **69** | – |
| Sale of Transonline membership cards | **32** | 87 |
| Sale of properties | **–** | 128,465 |
| Rental income | **–** | 2,717 |
| Property management fees | **–** | 1,478 |
| Gas installation service fees | **–** | 7,225 |
| | **171** | 139,972 |
| Other revenue | | |
| Interest income | **1** | 354 |
| | **172** | 140,326 |

An analysis of the Group's turnover and results by principal activities and markets for the six months ended 30th June 2002 is as follows:

| | Turnover Six months ended 30th June | | Operating (loss)/profit Six months ended 30th June | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| System integration services | **70** | – | **(5,578)** | – |
| Transonline operations | **101** | 87 | **(2,713)** | (3,340) |
| Property development | **–** | 128,465 | **–** | (2,260) |
| Property investment | **–** | 2,717 | **–** | (30,950) |
| Property management | **–** | 1,478 | **–** | (845) |
| Gas installation services | **–** | 7,225 | **–** | 514 |
| | **171** | 139,972 | **(8,291)** | (36,881) |
| Corporate expenses | | | **(8,959)** | (16,561) |
| Operating loss | | | **(17,250)** | (53,442) |
| Finance costs | | | **(1,900)** | (14,113) |
| Loss before taxation | | | **(19,150)** | (67,555) |
| Taxation | | | **–** | (2,003) |
| Loss after taxation | | | **(19,150)** | (69,558) |
| Minority interests | | | **815** | 360 |
| Loss attributable to shareholders | | | **(18,335)** | (69,198) |

No geographical analysis is provided as less than 10% of the consolidated turnover and results of the Group are attributable to markets outside the PRC.

### 3. Operating loss

Operating loss is stated after charging the following:

| | Six months ended 30th June 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Auditors' remuneration | **50** | 375 |
| Depreciation of fixed assets | **2,503** | 2,331 |
| Loss on disposal of other fixed assets | **466** | – |
| Operating leases in respect of land and buildings | **1,540** | 880 |
| Provision for diminution in value of investment properties | **–** | 32,000 |
| Cost of properties sold | **–** | 115,010 |
| Loss on disposal of leasehold land and buildings | **–** | 6,383 |

### 4. Staff costs

| | Six months ended 30th June 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Wages and salaries | **6,287** | 11,807 |
| Compensation for termination | **341** | – |
| Pension and social security costs | **224** | 564 |
| | **6,852** | 12,371 |

The Group's PRC subsidiaries participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The rates of contribution to these schemes range from 20% to 22% of the basic salaries of each individual employed. Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, the Group's directors and employees in Hong Kong joined the MPF Scheme.

### 5. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the six months ended 30th June 2002 (2001: Nil).

### 6. Loss per share

The calculation of basic loss per share is based on the Group's unaudited consolidated loss attributable to shareholders of HK$18,335,000 (2001: HK$69,198,000) and 1,113,200,000 (2001: the weighted average of 1,070,918,000) ordinary shares in issue during the six months ended 30th June 2002.

The exercise of the share options granted under the share options scheme of the Company would not have any dilutive effect on the loss per share for the six months ended 30th June 2002.

### 7. Goodwill

| | **2002** |
|---|---|
| | **HK$'000** |
| Net book value as at 1st January 2002 | 62,255 |
| Amortisation | (1,569) |
| Net book value as at 30th June 2002 | 60,686 |

### 8. Fixed assets

| | **Leasehold improvement, equipment and motor vehicles 2002** |
|---|---|
| | **HK$'000** |
| Net book value as at 1st January 2002 | 13,973 |
| Additions | 132 |
| Disposals | (466) |
| Depreciation | (2,503) |
| Net book value as at 30th June 2002 | 11,136 |

### 9. Contract work in progress

| | **30th June 2002** | 31st December 2001 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contract costs incurred plus attributable profits less foreseeable losses | **5,393** | 5,393 |
| Less: progress payment on account | **(2,936)** | (2,322) |
| | **2,457** | 3,071 |
| Represented by: | | |
| Net amounts due from customers for contract work | **3,158** | 3,772 |
| Net amounts due to customers for contract work | **(701)** | (701) |
| | **2,457** | 3,071 |

## 10. Trade and other receivables

The ageing analysis of the trade receivables included in trade and other receivables as at 30th June 2002 is as follows:

| | **30th June 2002 HK$'000** | 31st December 2001 HK$'000 |
|---|---|---|
| Current to 90 days | **12** | 2,777 |
| 91 – 180 days | **–** | 133 |
| 181 – 365 days | **2,009** | – |
| Over 1 year | **1,002** | 1,002 |
| | **3,023** | 3,912 |

The Group's revenues from sale of provision for system integration services are billed based on terms of the sale and purchase contracts and are normally receivable upon issue of invoices.

## 11. Amounts due to related companies

There represent the amounts due to companies beneficially owned by the Chairman of the Company, Mr. Chan Chak Shing. The amounts are unsecured and interest bearing at prime rate per annum.

## 12. Trade and other payables

The ageing analysis of the trade payable included in trade and other payables as at 30th June 2002 is as follows:

| | **30th June 2002 HK$'000** | 31st December 2001 HK$'000 |
|---|---|---|
| Current to 90 days | **265** | 231 |
| 91 – 180 days | **548** | 127 |
| 181 – 365 days | **–** | 329 |
| Over 1 year | **1,439** | 2,317 |
| | **2,252** | 3,004 |

## 13. Long-term liabilities

| | **30th June 2002 HK$'000** | 31st December 2001 HK$'000 |
|---|---|---|
| Long-term loans from banks and financial institutions, unsecured | **11,370** | 8,163 |
| Amounts repayable within one year | **(5,325)** | (3,125) |
| | **6,045** | 5,038 |

13. **Long-term liabilities** *(continued)*

At 30th June 2002, the Group's long-term liabilities were repayable as follows:

| | Long-term loans | |
|---|---|---|
| | **30th June 2002 HK$'000** | 31st December 2001 HK$'000 |
| Within one year | **5,325** | 3,125 |
| In the second year | **3,190** | 2,616 |
| In the third to fifth years | **2,855** | 2,422 |
| | **11,370** | 8,163 |

14. **Share capital**

| | Company | |
|---|---|---|
| | **Number of shares** | **HK$'000** |
| Ordinary shares of HK$0.10 each | | |
| Authorised | | |
| At 1st January 2002 | 1,500,000,000 | **150,000** |
| Increase during the period | 1,500,000,000 | **150,000** |
| At 30th June 2002 | 3,000,000,000 | **300,000** |
| Issued and fully paid | | |
| At 1st January and 30th June 2002 | 1,113,200,000 | **111,320** |

At an Extraordinary General Meeting of the Company held on 20th June 2002, the authorised ordinary share capital of the Company was increased from HK$150,000,000 to HK$300,000,000 by the creation of an additional 1,500,000,000 shares of HK$0.10 nominal value each.

At the Annual General Meeting of the Company held on 20th June 2002, the shareholders approved the termination of the share option scheme adopted by the Company on 5th July 1997 (the "Share Option Scheme") and the adoption of a new share option scheme ("New Scheme"). No options have been granted under the New Scheme.

As at 30th June 2002, the share options outstanding under the Share Option Scheme were as follows:

| **Year granted** | **Number of options** | **Exercise price** HK$ | **Expiry date** |
|---|---|---|---|
| 1997 | 21,100,000 | 1.53 | August 2007 |
| 1998 | 58,900,000 | 0.36 | March 2008 |
| 2000 | 8,980,000 | 0.173 to 0.24 | February 2010 to October 2010 |
| | 88,980,000 | | |

## 15. Commitments under operating leases

At 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | **30th June 2002 HK$'000** | 31st December 2001 HK$'000 |
|---|---|---|
| Not later than one year | **1,354** | 2,155 |
| Later than one year and not later than 5 years | **–** | 577 |
| | **1,354** | 2,732 |

## 16. Contingent liabilities

At 30th June 2002, a subsidiary of the Company provided a corporate guarantee in respect of banking facilities granted by banks to Shenzhen Dico Net Company Limited, a third party, to the extent of HK$6,675,000 (31st December 2001: HK$18,857,000).

## 17. Related party transactions

Significant related party transaction, which was carried out in the normal course of the Group's business is as follows:

| | **Six months ended 30th June** | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Interest payable to ultimate holding company | **301** | 1,564 |

This represents the interest calculated at prime rate on the amount due to companies beneficially owned by Mr Chan Chak Shing, Chairman of the Company.

## 18. Subsequent events

Pursuant to a resolution passed on 19th April 2002, the Company proposed to raise a minimum of approximately HK$50 million, before expenses, by an open offer of not less than 445,280,000 offer shares at a subscription price of HK$0.115 per offer share on the basis of an allotment of two offer shares for every five existing shares held by the qualifying shareholders.

As at the close of the open offer on 8th July 2002, the Company had received 52 applications from qualifying shareholders applying for a total of 26,469,630 offer shares. Pursuant to the underwriting agreement, Winsan International Holdings Limited, the controlling shareholder of the Company, was required to underwrite 418,810,370 offer shares. After the open offer, the number of issued ordinary shares increased to 1,558,480,000.

## BUSINESS REVIEW

### Results

For the six months ended 30th June 2002, the Group recorded a turnover of HK$171,000.

### TransOnline

For the six months ended 30th June 2002, sales revenue was primarily derived from trial membership fees.

### Dico

For the six months ended 30th June 2002, there was no significant sale recorded.

## OPERATIONAL REVIEW

### TransOnline

TransOnline hinges on "Freight Exchange Information System", "Integrated Logistics Solution", and "Value Added Services" for our members across the PRC.

*"Freight Exchange Information System"*

This is the result of a five-year research project across the globe undertaken by the Research Institute of Highway under the Ministry of Communications. It is a highly specialised and dedicated network based land transport logistic infrastructure covering the PRC which takes us over two years to build. We have since the end of last year secured additional alliance members from 60 to 85 and special support units from 17 to 67 over 150 medium to large cities covering all provinces except for Hainan of which is not directly linked by road. We now have over 230 service centers catering for our members' need across the PRC offering basic services such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging. We have also provided training for our alliance members in handling our dedicated system in over 80 cities.

*"Integrated Logistics Solution"*

We have for the first six months of this year worked closely with a Canadian based logistic software provider to select and modify when necessary the existing Canadian software for the PRC small to medium size market. We have completed our market research and currently undergoing negotiation with a number of our alliance members to select a suitable base to build a fully operational logistic hub using our "Warehouse Management System" (W.M.S.) together with "Transport Management System" (T.M.S.).

We have completed a system called 貨運小靈通 which is dedicated for the freight brokering industries that operates with centralised call centers across the PRC. There are in excess of half a million freight-brokers covering all major cities in the PRC.

*"Value Added Services"*

We are currently under negotiation with the technical team of a leading wireless operator in the PRC to work on a nationwide "Location Base Services" (L.B.S.) in conjunction with our "Transport Management System" (T.M.S.).

**Dico**

Dico is principally engaged in providing broadband and cable TV related platform and equipment for cable TV and telecommunication service operators. It also offers solutions to cable operators by providing systems ranging from the central network management systems to subscribers management system called DIC-TBS System, to integrated hardware and software into practical and useable DVB-C system for cable operators. Being unfortunately not selected by SABFT (the State Administration of Broadcasting, Film and Television) for our Condition Access ("CA") as first part of the PRC DVB-C standard towards end of last year, we have undergone restructuring the entire operation and moved the company to Beijing during the period under review.

**OTHER EVENTS**

**Capital adequacy**

As at 30th June 2002, the Group had net tangible deficit of HK$64,518,000 and a net current liability of HK$69,346,000 (inclusive of amounts due to related companies of HK$58,592,000). In order to ensure that the Group will have sufficient financial resources to sustain and further develop its current operations, as at 11th July 2002, the Company raised HK$51,207,200 (before expenses) through an open offer of shares to its existing shareholders, which were fully underwritten by Mr. Chan Chak Shing, Chairman of the Company. Of the total proceeds, approximately HK$16,207,200 will be used to fund the current operations, while the remaining HK$35 million will be applied towards the repayment of amounts due to related companies. Subsequent to the open offer, the net tangible deficit of the Group would be reduced to HK$13,310,800 and net current liability of the Group would also be substantially reduced.

The Directors recognise that in view of the uncertainty in the market in the immediate future, even taking account of the open offer as set out above, the continuation of the Group's business will depend on the financial support of its directors and major shareholders. In this connection, Mr. Chan Chak Shing has confirmed that he will provide the necessary funding to the Group within twelve months from 1st January 2002, up to a maximum of HK$20 million.

**Contingent liabilities**

At 30th June 2002, a subsidiary of the Company provided a corporate guarantee in respect of banking facilities granted by banks to Shenzhen Dico Net Company Limited, a third party, to the extent of HK$6,675,000 (2001: HK$18,857,000).

**Employees**

As at 30th June 2002, the Group had 101 employees, the majority of which was based in the PRC. The subsidiaries of the Group in the PRC participate in defined contribution pension schemes operated by the relevant local government authorities in the PRC. Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000 in Hong Kong, the Group's directors and employees in Hong Kong have joined the MPF Scheme.

**Resignation of directors**

Mr. Wang Yi and Mr. Shi Dan Wei have resigned as non-executive directors of the Company on 29th July 2002.

**Open offer**

The Company announced on 24th April 2002 a proposal for the Open Offer of not less than 445,280,000 Offer Shares at a subscription price of HK$0.115 per Offer Share on the basis of an assured allotment of two Offer Shares for every five existing Shares held by the Qualifying Shareholders. An Underwriting Agreement dated 19th April 2002 was entered into between the Company and Winsan International Holdings Limited ("WIHL"), the Controlling Shareholder of the Company, under which WIHL agreed to underwrite the Offer Shares in full ("Underwriting Agreement").

In view of WIHL and its associates will be interested in between approximately 35.53% to 53.95% of the enlarged issued share capital of the Company upon completion of the Open Offer, WIHL would be required under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Code") to make a general offer if WIHL and its associates acquire more than 2% voting rights under the Underwriting Agreement. The Securities and Futures Commission of Hong Kong ("SFC") has granted the waiver from the obligation of WIHL to make a general offer under Rule 26 of the Code ("Waiver").

The purpose of the Open Offer is to provide funds for current business requirements of the Company and to strengthen its balance sheet by replacing debt with equity and reducing the net liabilities.

Net proceeds of approximately HK$15,000,000 out of the aggregate of HK$50,000,000 derived from the Open Offer will be used for current business requirements, of which about HK$5,000,000 is to fund the roll out of the full membership program and value added services plans of TransOnline and about HK$10,000,000 as general working capital of the Company. The remaining HK$35,000,000 is used to repay debts owed by the Company to WIHL.

A circular and a prospectus containing, among other things, details of the Open Offer was despatched to the shareholders on 28th May 2002 and 24th June 2002 respectively. An extraordinary general meeting was held on 20th June 2002, the shareholders have approved the increase of the authorised share capital of the Company to HK$300,000,000 and the independent shareholders have approved the Open Offer and the Waiver.

As at the close of the Open Offer on 8th July 2002, the Company had received 52 applications from Qualifying Shareholders applying for a total of 26,469,630 Offer Shares. Pursuant to the Underwriting Agreement, WIHL was required to underwrite 418,810,370 Offer Shares. As a result, WIHL and its associates were interested in a total of 814,372,870 shares in the Company, representing approximately 52.25% of the enlarged issued share capital (being 1,558,480,000 ordinary shares of HK$0.10 each) of the Company. WIHL has fulfilled its underwriting obligations pursuant to the Underwriting Agreement in full and the Listing Committee of the Stock Exchange has agreed to grant listing of, and permission to deal in the Offer Shares. Subsequent to the open offer, the Company increased its share capital and premium to an aggregate of HK$51,207,200.

After the Open Offer, the outstanding amount owed by the Company to WIHL has reduced to HK$20,000,000, after payment of HK$35,000,000 by the Company to WIHL by way of a set-off (the amount payable for subscription by WIHL of 418,810,370 Offer Shares as reduced by HK$35,000,000).

**Approval of De-minimis Concession of the Listing Rules**

On 13th June 2002, the Stock Exchange has approved the Company's application for the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company.

As such, the "assets test" and the "consideration test" will not apply to each transaction (other than connected transaction) carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the consideration or value of the transaction does not exceed HK$1,000,000, and such transaction will not be subject to shareholders' approval and disclosure requirements.

The Stock Exchange's approval for the use of the De-minimis Concession will remain valid from 14th June 2002 until publication or the due date of publication of the Company's next annual report for the year ending 31st December 2002, whichever is earlier.

**CAPITAL REORGANISATION**

The directors of the Company (the "Directors") propose to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the "Change of Domicile") and to reorganise its share capital (the "Capital Reorganisation") by:

(a) setting off the entire amount standing to the credit of the share premium account of the Company (currently about HK$940,891,570) against its accumulated losses as at 30th June, 2002 (being HK$1,049,364,000) (the "Initial Set-off"); and

(b) reducing the nominal value of each existing share of HK$0.10 ("Existing Shares") to HK$0.01 by cancelling HK$0.09 of the nominal value of each Existing Share and sub-dividing each of the authorised but unissued Share into 10 new shares of HK$0.01 each ("New Shares"). The credit in the sum of about HK$140,263,200 arising from such reduction will be credited to a distributable reserve of the Company.

Part of the amount standing to the credit of the contributed surplus account of the Company immediately after the completion of the Capital Reorganisation will be applied to eliminate the accumulated losses of the Company then remaining after the Initial Set-off (which is expected to amount to about HK$108,472,430).

As at the date of this report, the Company has an authorised share capital of HK$300 million divided into 3 billion Existing Shares, 1,558,480,000 of which have been issued. Immediately after the Capital Reorganisation, the Company will have in issue 1,558,480,000 New Shares (assuming that no new Existing Shares are issued or purchased by the Company before the Capital Reorganisation is completed).

It is proposed that a new memorandum and bye-laws will be adopted to replace the existing memorandum and articles of association of the Company in order to comply with Bermuda company law.

**Reasons for the reduction and impact on the Company and shareholders**

The Capital Reorganisation is proposed to enable the Company to apply part of the amount standing to the credit of its contributed surplus to eliminate the accumulated losses of the Company as at 30th June 2002 (being HK$1,049,364,000) putting the Company in a position to declare dividends to its shareholders at an earlier opportunity although in present, the Company has not decided on whether dividends will be declared upon completion of the Proposals. In addition, it will also provide the Company with more flexibility in fixing the price for issuing new shares as the Existing Shares are traded below their nominal value recently but new shares cannot be issued below their nominal value. Subject to market conditions, the Company will issue new Shares as and when the Directors think fit and desirable. To shorten the time required to effect the Capital Reorganisation, it is also proposed to effect the Change of Domicile. The Company has received advice from its legal advisers that while only special resolutions of the Company (to make necessary amendment to the Articles of Association of the Company and authorise the Initial Set-off) are required, it may take up to 6 months to complete the Capital Reorganisation, subject to the availability of the Court in the Cayman Islands, if it is to be effected in the Cayman Islands; whereas with implementation of the proposed Change of Domicile and Capital Reorganisation, the time required will be shortened to about 2 to 3 months.

The Proposals will not alter the underlying assets, business operations, management or financial position of the Company and its subsidiaries (the "Group") nor the proportionate interests of the shareholders of the Company. The Directors believe that Capital Reorganisation will not have any material adverse effect on the financial position of the Group. The total expense involved in the implementation of the Proposals is expected to be approximately HK$500,000. The Directors expect that immediately after the Capital Reorganisation and the application of the Company's contributed surplus to eliminate accumulated losses described above, about HK$31,790,770 will remain to the credit of the Company's contributed surplus account.

The Change of Domicile will not involve the formation of a new holding company, the withdrawal of listing of existing securities, any issue of new securities, any transfer of assets of the Company or any change in the existing shareholding structure of the Company. The continuation of the Company in Bermuda does not create a new legal entity or prejudice or affect the continuity of the Company. Implementation of the Change of Domicile will not affect the listing status of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Conditions of the Capital Reorganisation**

The Capital Reorganisation is conditional on:

(a) the passing of the necessary special resolutions by the shareholders at an extraordinary general meeting of the Company to approve the Proposals;

(b) the Change of Domicile becoming effective;

(c) compliance with the legal procedures and requirements under Bermuda and Cayman Islands law; and

(d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares.

**Application for listing**

Application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the New Shares and all necessary arrangements will be made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

**General**

A circular setting out the details of the Proposals, the arrangements for free exchange of share certificates, and containing a notice of an extraordinary general meeting of the Company to approve the Proposals will be sent to the shareholders of the Company as soon as practicable. Further announcement will be made as regards the timetable of the Capital Reorganisation once the effective date of the Capital Reorganisation can be ascertained.

If the conditions of the Change of Domicile and Capital Reorganisation are not fulfilled, they will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

**OUTLOOK**

The Group will focus itself on network based land transport logistic infrastructure development under TransOnline and DVB based solution for the cable industry under DICO.

**TransOnline**

*"Freight Exchange Information System"*

The Company has considered this will be the most suitable time to commence our membership roll out program. Since there are already over 230 network based service outlets across 150 medium to large cities in the PRC providing initially basic services such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging. Our target for final quarter of this year will be 20,000 paying members over 20 cities to start with then over 150 cities by middle of next year.

*"Integrated Logistics Solution" and "Value Added Services"*

The Company intends to complete installation of its first fully operational logistic hub for its alliance members by middle of next year. We will be using dedicated Canadian logistic software with our "Warehouse Management System" (W.M.S.) and our "Transport Management System" (T.M.S.). Pending the final outcome of our negotiation with the wireless operator and a platform provider, a full deployment of an operational "Location Based Service" (L.B.S.) across the PRC in conjunction with "Short Messaging Service" (S.M.S.) will be available some time next year for the whole transport logistic service industry. This service will generate respectable income for the Group.

**Dico**

Subject to SABFT (the State Administration of Broadcasting, Film and Television) setting the remaining standard for the DVB industry by end of the year, we will be ready and able to penetrate this vast and mass market which requires changes from analog to digital. We have been working on upgrading our product for our existing customers and are ready with new cheap and more efficient products for new customers across the DVB industry in the PRC.

## SHARE OPTION SCHEME

On 20th June 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 5th July 1997 (the "Share Option Scheme") and the adoption of a new share option scheme ("New Scheme"). The New Scheme is to provide the directors, executives, employees and any other person(s) who have contributed or may contribute to the Group with the opportunity to acquire proprietary interests in the Company and to encourage the said persons to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders as a whole.

As at 30th June 2002, there were a total of 88,980,000 outstanding options under the Share Option Scheme. No options have been granted under the New Scheme.

## DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 30th June 2002, the interests of the directors in the share capital of the Company, recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") are as follows:

**(a) Interests in shares of the Company of HK$0.10 each**

| Name of director | Nature of interest | Number of ordinary shares |
|---|---|---|
| Mr Chan Chak Shing | Corporate | 362,562,500* |
| | Family | 33,000,000 |
| Mr Chan Hon Ching | Personal | 11,250,000 |
| Ms Chiu King Cheung | Personal | 3,812,500 |
| Ms Lo Mei Chun | Personal | 2,600,000 |

* The corporate interest of Mr Chan Chak Shing represents the shares held by WIHL, which is beneficially owned and controlled by Mr Chan Chak Shing.

(b) **Share options**

As at 30th June 2002, the share options outstanding under the Share Option Scheme were as follows:

| Name of director | Date of grant | Number of options held as at 1st January 2002 | Options lapsed during the period | Options exercised during the period | Exercise price | Number of outstanding options as at 30th June 2002 |
|---|---|---|---|---|---|---|
| Mr Chan Chak Shing | 1st September 1997 | 16,000,000 | – | – | HK$1.53 | 16,000,000 |
| | 31st March 1998 | 11,500,000 | – | – | HK$0.36 | 11,500,000 |
| | 16th February 2000 | 2,300,000 | – | – | HK$0.24 | 2,300,000 |
| Mr Chan Hon Ching | 1st September 1997 | 1,000,000 | – | – | HK$1.53 | 1,000,000 |
| | 31st March 1998 | 22,000,000 | – | – | HK$0.36 | 22,000,000 |
| | 16th February 2000 | 2,000,000 | – | – | HK$0.24 | 2,000,000 |
| Ms Chiu King Cheung | 1st September 1997 | 1,000,000 | – | – | HK$1.53 | 1,000,000 |
| | 31st March 1998 | 22,000,000 | – | – | HK$0.36 | 22,000,000 |
| | 16th February 2000 | 1,000,000 | – | – | HK$0.24 | 1,000,000 |
| Ms Lo Mei Chun | 1st September 1997 | 600,000 | – | – | HK$1.53 | 600,000 |
| | 30th October 2000 | 1,000,000 | – | – | HK$0.173 | 1,000,000 |
| | | 80,400,000 | – | – | | 80,400,000 |

The average exercise price of the share options granted is above the market value of the Company's shares as at 30th June 2002 and accordingly, the directors are of the view that the disclosure of the value of the share options granted is not meaningful.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th June 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

| Name of shareholder | Number of ordinary shares |
|---|---|
| WIHL | 362,562,500 |

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that during the six months period ended 30th June 2002, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

## AUDIT COMMITTEE

The Audit Committee examined the accounting principles and practices adopted by the Group, and discussed with management its internal controls and financial statements. During the period, the Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30th June 2002.

By order of the Board
**Chan Chak Shing**
*Chairman*

Hong Kong, 24th September 2002