

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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(於開曼群島註冊成立及於百慕達繼續經營之有限公司)



WINSAN

Interim Report 2003
二零零三年中期報告



The Board of Directors of Winsan (China) Investment Group Company Limited (the “Company”) hereby presents the Interim Financial Statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2003. The Interim Financial Statements comprise the consolidated profit and loss accounts, consolidated statement of changes in equity and consolidated cash flow statement for the Group for the six months ended 30th June 2003 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:

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the six months ended 30th June 2003

	Note	Unaudited	
		Six months ended 30th June	
		2003	2002
		HK\$'000	HK\$'000
Turnover (net of business tax)	2	2,464	171
Cost of sales		(5,027)	(721)
Gross loss		(2,563)	(550)
Other revenue	2	2	1
Selling expenses		(1,085)	(4,083)
Administrative expenses		(13,033)	(11,049)
Amortisation of goodwill		(1,569)	(1,569)
Provision for impairment loss on goodwill		(29,000)	–
Operating loss	3	(47,248)	(17,250)
Finance costs		(1,112)	(1,900)
Loss before taxation		(48,360)	(19,150)
Taxation	5	–	–
Loss after taxation		(48,360)	(19,150)
Minority interests		–	815
Loss attributable to shareholders		(48,360)	(18,335)
		HK cents	HK cents
Loss per share – basic	6	(3.12)	(1.63)



CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30th June	31st December
		2003	2002
	<i>Note</i>	HK\$'000	HK\$'000
Goodwill	7	28,547	59,116
Fixed assets	8	5,625	8,088
Current assets			
Inventories		987	2,796
Amounts due from customers for contract work	9	–	1,580
Trade and other receivables	10	403	3,690
Bank balances and cash		783	1,013
		2,173	9,079
Current liabilities			
Amounts due to customers for contract work	9	–	730
Amounts due to related companies	11	34,395	19,983
Trade and other payables	12	10,262	11,391
Current portion of long-term bank loans	13	5,611	7,228
Short-term loans, unsecured	14	12,069	12,069
Bank overdrafts, unsecured		3,477	4,891
		65,814	56,292
Net current liabilities		(63,641)	(47,213)
		(29,469)	19,991
Represented by:			
Share capital	15	15,585	15,585
Reserves		(45,412)	2,948
(Capital deficiency)/shareholders' funds		(29,827)	18,533
Long-term bank loans	13	358	1,458
		(29,469)	19,991



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	
At 1st January 2003	15,585	–	140,263	17	(137,332)	18,533
Loss for the period	–	–	–	–	(48,360)	(48,360)
At 30th June 2003	15,585	–	140,263	17	(185,692)	(29,827)
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)



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Net cash from/(used in) operating activities	5,196	(6,911)
Net cash (used in)/from investing activities	(1,295)	1,094
Net cash (used in)/from financing	(2,717)	1,619
Increase/(decrease) in cash and cash equivalents	1,184	(4,198)
Cash and cash equivalents at 1st January	(3,878)	1,945
Cash and cash equivalents at 30th June	(2,694)	(2,253)
Analysis of cash and cash equivalents		
Bank balances and cash	783	940
Bank overdrafts	(3,477)	(3,193)
	(2,694)	(2,253)



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

As at 30th June 2003, the Group had a deficit on shareholders' fund of HK\$29,827,000 (31st December 2002: Shareholders' fund of HK\$18,533,000) and net current liabilities of HK\$63,641,000 (31st December 2002: HK\$47,213,000). 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 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 2002.

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 2002 except that the Group has adopted certain revised accounting policies issued by HKSA which are effective for accounting periods commencing on or after 1st January 2003 as follows:

- SSAP 12 (revised) : Income tax
- SSAP 34 (revised) : Employee benefit

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

2 Turnover and segment information

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	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
System integration services income	2,365	70
Sale of goods	16	69
Sale of Transonline membership cards	83	32
	<u>2,464</u>	<u>171</u>
Other revenue		
Interest income	2	1
	<u>2</u>	<u>1</u>
	<u>2,466</u>	<u>172</u>

An analysis of the Group's turnover and results by principal activities and markets for the six months ended 30th June 2003 is as follows:

	Turnover		Operating loss	
	Six months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
System integration services	2,365	70	(6,678)	(5,578)
TransOnline operations	99	101	(2,248)	(2,713)
	<u>2,464</u>	<u>171</u>	<u>(8,926)</u>	<u>(8,291)</u>
Provision for impairment of goodwill			(29,000)	-
Corporate expenses			(9,322)	(8,959)
Operating loss			(47,248)	(17,250)
Finance costs			(1,112)	(1,900)
Loss before taxation			(48,360)	(19,150)
Taxation			-	-
Loss after taxation			(48,360)	(19,150)
Minority interests			-	815
Loss attributable to shareholders			<u>(48,360)</u>	<u>(18,335)</u>



2 Turnover and segment information (Continued)

	2003	2002
	HK\$'000	HK\$'000
Segment assets		
– TransOnline	3,109	4,307
– System integration	32,158	90,370
– Unallocated assets	1,078	838
	<hr/>	<hr/>
Total assets	36,345	95,515
	<hr/>	<hr/>
Segment liabilities		
– TransOnline	6,994	3,599
– System integration	43,834	46,864
– Unallocated liabilities	15,344	48,884
	<hr/>	<hr/>
Total liabilities	66,172	99,347
	<hr/>	<hr/>
Capital expenditure		
– TransOnline	–	25
– System integration	–	24
– Unallocated capital expenditure	185	83
	<hr/>	<hr/>
	185	132
	<hr/>	<hr/>
Depreciation		
– TransOnline	468	464
– System integration	1,152	2,028
– Unallocated assets	16	11
	<hr/>	<hr/>
	1,636	2,503
	<hr/>	<hr/>
Amortisation of goodwill		
– System integration	1,569	1,569
Provision for impairment loss of goodwill		
– System integration	29,000	–

No geographical analysis is provided as less than 10% of the consolidated turnover and results of the Group are attributable to markets outside the People's Republic of China (the "PRC").



3 Operating loss

Operating loss is stated after charging the following:

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Auditors' remuneration	50	50
Depreciation of fixed assets	1,636	2,503
Loss on disposal of fixed assets	1,012	466
Provision for bad and doubtful debts	2,648	513
Operating leases in respect of land and buildings	<u>1,008</u>	<u>1,540</u>

4 Staff costs

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	4,664	6,287
Compensation for termination	603	341
Pension and social security costs	<u>146</u>	<u>224</u>
	<u>5,413</u>	<u>6,852</u>

The Group's PRC subsidiaries participate in defined contribution retirement schemes organized 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 2003 (2002: nil).

Under PRC income tax law, except for certain preferential treatment available to certain of the Company's subsidiaries operating in the PRC, the entities in the PRC are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income as reported in their statutory accounts which are prepared in accordance with accounting principles and financial regulations applicable to PRC enterprises.

No provision for CIT has been made in the accounts as the subsidiaries of the Company operating in the PRC have no assessable profit for the six months ended 30th June 2003 (2002: 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\$48,360,000 (2002: HK\$18,335,000) and the weighted average of 1,547,775,000 (2002: 1,124,332,000 (as restated)) ordinary shares in issue during the six months ended 30th June 2003, as adjusted to reflect the rights issue in July 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 2003.

7 Goodwill

	2003 HK\$'000
Net book value as at 1st January	59,116
Amortisation	(1,569)
Provision for impairment loss	(29,000)
	<hr/>
Net book value as at 30th June	<u>28,547</u>

8 Fixed assets

	Leasehold improvements, equipment and motor vehicles 2003 HK\$'000
Net book value as at 1st January	8,088
Additions	185
Disposals	(1,012)
Depreciation	(1,636)
	<hr/>
Net book value as at 30th June	<u>5,625</u>



9 Contract work in progress

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses	–	5,393
Less: progress payment on account	–	(2,964)
Less: provisions	–	(1,579)
	<u>–</u>	<u>850</u>
Represented by:		
Amounts due from customers for contract work	–	1,580
Amounts due to customers for contract work	–	(730)
	<u>–</u>	<u>850</u>

10 Trade and other receivables

The ageing analysis of the trade receivables included in trade and other receivables as at 30th June 2003 is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Current to 90 days	–	5
91 to 180 days	–	–
181 to 365 days	5	–
Over one year	–	1,782
	<u>5</u>	<u>1,787</u>

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

These 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 2003 is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within one year	–	–
Over one year	<u>2,058</u>	<u>2,058</u>
	<u>2,058</u>	<u>2,058</u>

13 Long-term bank loans

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Long-term bank loans, unsecured	5,969	8,686
Amount repayable within one year	<u>(5,611)</u>	<u>(7,228)</u>
	<u>358</u>	<u>1,458</u>

14 Short-term loans, unsecured

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Bank loan, unsecured (<i>note (a)</i>)	8,486	8,486
Government loans, unsecured (<i>note (b)</i>)	<u>3,583</u>	<u>3,583</u>
	<u>12,069</u>	<u>12,069</u>

(a) The bank loan as at 30 June 2003 is guaranteed by a related company beneficially owned by the chairman of the Company, Mr. Chan Chak Shing

(b) The government loans comprise a loan of HK\$755,000 (2002: HK\$755,000) granted by Shenzhen Futian District Science and Technology Bureau, the PRC, which is interest bearing at 2.5% (2002: 2.5%) per annum and an interest free loan of HK\$2,828,000 (2002: HK\$2,828,000) granted by Shenzhen Finance Bureau, the PRC. Such loans are guaranteed by third parties.



15 Share capital

	Company	
	<i>Number of Shares</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised</i>		
At 1st January and 30th June 2003	<u>30,000,000,000</u>	<u>300,000</u>
<i>Issued and fully paid</i>		
At 1st January and 30th June 2003	<u>1,558,480,000</u>	<u>15,585</u>

As at 30th June 2003, the share options outstanding under the Share Option Scheme were as follows:

Year granted	Number of options	Exercise price HK\$	Expiry date
1997	18,600,000	1.53	August 2007
1998	55,500,000	0.36	March 2008
2000	<u>6,380,000</u>	0.173 to 0.24	February 2010 to October 2010
	<u>80,480,000</u>		

16 Commitments under operating leases

At 30th June 2003, the Group had future aggregate minimum lease payments under noncancellable operating leases in respect of land and buildings as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Not later than one year	<u>857</u>	833
Later than one year and not later than 5 years	<u>712</u>	–
	<u>1,569</u>	<u>833</u>

17 Contingent liabilities

At 30th June 2003, 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 2002: HK\$6,675,000).

**18 Related party transactions**

Apart from those disclosed in notes 11 and 14, other 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	
	2003	2002
	HK\$'000	HK\$'000
Interest payable to ultimate holding company	<u>386</u>	<u>301</u>

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

19 Ultimate holding company

The directors regard Winsan International Holdings Limited ("WIHL"), a company incorporated in the British Virgin Islands, as being the ultimate holding company.



MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

TransOnline

TransOnline hinges on “Freight Exchange Information System”, “Integrated Logistics Solution”, and “Value Added Services”. The progress in the development of TransOnline has been severely delayed by SARS in the second quarter of 2003, as a result, there has been little revenue generated. The status of development of TransOnline is set out as follows:

“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 taken us over almost three years to build. Even with the impact of SARS, we are able to maintain 85 alliance members and 67 special support units over 150 medium to large cities covering all provinces except for Hainan. We still have over 200 service centers catering for our members’ basic needs such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging.

“Integrated Logistics Solution”

In connection with the setup of a logistic hub, due to the impact of SARS we are unable to find a suitable base to build a test operational logistic hub using our “Warehouse Management System” (W.M.S.) together with “Transport Management System” (T.M.S.) at present.

Due to the spread of SARS in the second quarter, our marketing team was unable to travel and the development plan of our logistic system “貨運小靈通” was suspended.

“Value Added Services”

With the spread of SARS during the second quarter of 2003, we have little choice but to put back our negotiation with the leading wireless operator on the building of a nationwide “Location Base Services” (L.B.S.).

DICO

DICO was principally engaged in providing broadband and cable TV related platform and equipment for cable TV and telecommunication service operators. Although in last six months DICO recorded a turnover up to HK\$2,365,000, the segment of the market in which DICO operates has practically been stagnant while awaiting the State Administration of Radio, Film and Television (“SARFT”) to set the relevant standards for Digital Video Broadcasting – Cable (“DVB-C”) industry. We have planned in the beginning of the year to utilize some of DICO’s technologies and know-how to provide installation and consultancy services for developers of luxury residential estates.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook

TransOnline

“Freight Exchange Information System”

Hopefully with SARS behind us, we can resume our membership roll out program as before since there are already over 200 network based service outlets across 150 medium to large cities in the PRC providing basic services such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging.

“Integrated Logistics Solution”

We intend to resume our negotiation with our alliance members to find a suitable site to build our first operational logistic hub for our alliance members. TransOnline will use dedicated Canadian logistic software for “Warehouse Management System” (W.M.S.) and “Transport Management System” (T.M.S.).

With the SARS behind us, we will resume the marketing and promotion of the logistic system “貨運小靈通” for those centralized call centers for the freight brokering industries across the PRC.

“Location Base Services”

The negotiation with the leading wireless operator has resumed after SARS was under-controlled in July of 2003. Based on the current information, the management estimates that the negotiation is close to its final stage, we intend to start the testing of LBS services in Beijing and Tianjin. If it is successful, then a detail rollout program subject to the deployment plan of our wireless operating partner. If successful, this will generate respectable income to come.

DICO

With the impact of SARS and the tightening of the bank loans in the PRC which directly or indirectly affect the property sector, DICO’s development has somewhat been affected. After evaluating the current situation and the impact to DICO’s operation in respect of the development of installation and consultancy services for the PRC’s medium to large size property developer in luxury residential estates in the PRC, management took a prudence view and decided to make a further provision on the goodwill.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook (Continued)

The possible very substantial acquisition may involve a change of control in the Company

The Company is now in the final stage of negotiations in respect of a possible acquisition (“the Possible Acquisition”) of a 65% equity interest in a Sino-foreign equity joint venture from an independent third party (“Vendor”), which is incorporated in the PRC and principally engaged in the design and manufacture of mobile telecommunication equipment. The consideration will be satisfied entirely by the issue of new shares (“Consideration Shares”) of the Company. As the Company currently has a negative net tangible asset value, if the Possible Acquisition proceeds, it will constitute a very substantial acquisition of the Company under the Listing Rules and it is also likely that as a result of the Possible Acquisition, the Vendor will become the controlling shareholder and the single largest shareholder of the Company.

The Possible Acquisition will proceed only after the Company and the Vendor, amongst others, enter into a formal sales and purchase agreement for the Possible Acquisition, and currently no such formal agreement has been executed, the Possible Acquisition may or may not proceed, and the final outcome will totally depend on the negotiation among the Company and the Vendor. If the Possible Acquisition proceeds, it will be subject to a number of condition precedents, which include among others, (i) the obtaining of all relevant PRC regulatory approvals, of which per the management’s understanding is already in an advance stage; (ii) the approval from the Company’s Shareholders for the Possible Acquisition; (iii) the Whitewash Waiver being granted by Securities and Futures Commission; and (iv) listing permission being granted for the Consideration Share which will be issued pursuant to the Possible Acquisition. In addition, the Possible Acquisition will also subject to the legal and financial due diligence in respect of the target company to the satisfaction of the Company, and the legal and financial due diligence in respect of the Company to the satisfaction of the Vendor and these are being carry out at present. The management believes if the Possible Acquisition could proceed, it will offer a great opportunity for the Company to engage in the manufacturing of mobile telecommunication business in the PRC.

Hopefully with SARS behind us, our current operation has resumed regardless whether the Possible Acquisition will proceed or not, the management will dedicate its available resources on Transonline and DICO’s operations.

Financial Review

During the six months ended 30th June 2003 (the “Period”), the Group recorded a turnover of approximately HK\$2,464,000 (2002: HK\$171,000). Out of the total turnover, HK\$2,365,000 (2002: HK\$70,000) was generated from DICO and HK\$99,000 (2002: HK\$101,000) was generated from TransOnline. The loss attributable to shareholders for the Period was HK\$48,360,000 (2002: HK\$18,335,000), including the provision for the impairment loss on goodwill amounting to HK\$29,000,000 (2002: nil).



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

The unsatisfactory turnover and operating results are attributable to the fact that the development of TransOnline and, the new initiative in using our technologies from DICO on the provision of installation and consultancy services to developers of luxury residential estates was seriously affected by the spread of SARS in the PRC. The circumstances surrounding the operations and the prospects of TransOnline, DICO and our new initiative are set out in the sections headed "Operational review" and "Outlook".

During the Period, we continued to streamline our management and working teams in logistic services and DVB-C market to overcome the current difficult operating environment.

Of the Group's total operating expenditure, staff costs continued to represent the largest component. We were able to reduce our head count from 62 as stated in the 2002 annual report to 32. The Directors believe that the quality of our employees is the most important factor in sustaining the Group's growth and improving its cost effectiveness. Employees are now remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme, share options and performance bonus.

OTHER EVENTS

Capital adequacy and liquidity

The spread of SARS has severely impacted our operations in TransOnline and DICO and our liquidity was adversely affected. The operation of the Group during the Period was mainly financed by loans granted by the ultimate holding company. The net current liabilities increased from HK\$47,213,000 as at 31st December 2002 to HK\$63,641,000 as at 30th June 2003. In addition, the shareholders' equity has been eroded from HK\$18,533,000 as at 31st December 2002 to a capital deficiency of HK\$29,827,000 as at 30th June 2003. This was mainly caused by an additional provision on the impairment loss for goodwill amounting to HK\$29,000,000.

As at 30th June 2003, the Group had a deficit on net tangible assets of HK\$58,374,000 (31st December 2002: HK\$40,583,000) and a net current liability of HK\$63,641,000 (31st December 2002: HK\$47,213,000) (inclusive of the amounts due to related companies). The Directors recognise that in view of the uncertainty in the market in the immediate future, 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.



OTHER EVENTS *(Continued)*

Bank loans

The operation of the Group was also financed by bank and other loans as well as a bank overdraft. Except for a fixed rate HK\$755,000 government loan at 2.5% per annum and an interest free government loan of HK\$2,828,000, the remaining bank loans as well as the bank overdraft are floating rate facilities.

As at 30th June 2003, the balance of bank and other loans was HK\$18,038,000 (31st December 2002: HK\$20,755,000) while the balance of bank overdraft was HK\$3,477,000 (31st December 2002: HK\$4,891,000). Out of the bank and other loans as well as the bank overdraft, HK\$9,446,000 (31st December 2002: HK\$13,577,000) was denominated in Hong Kong dollars and the rest of the balance was denominated in Renminbi. Since the interest rate and exchange rate for Renminbi are relatively stable in the previous years, management considers that there is no immediate need to arrange hedging for the interest rate and exchange rate risk after taking into accounts of the current business activities.

Charges on group assets

Apart from those stated in notes 13 and 14 to the condensed interim financial statements, there are no other charges on the group assets.

Contingent liabilities

As at 30th June 2003, a subsidiary of the Company provided a corporate guarantee in respect of banking facilities granted by banks to a third party to the extent of HK\$6,675,000 (31st December 2002: HK\$6,675,000).

Employee

As at 30th June 2003, the Group had 32 (31st December 2002: 62) employees majority of which were based in the PRC. The subsidiaries of the Group in the PRC participate in the defined contribution pension schemes operated by the relevant local government authorities in the PRC. Following the adoption of the Mandatory Provident Fund Scheme ("MPF") since December 2000, the Group's directors and employees in Hong Kong joined the MPF. The total amount contributed to the relevant pension schemes for the Period was HK\$146,000 (2002: HK\$224,000).



DE-MINIMIS CONCESSION

Based on the Company's published final results for the year ended 31st December 2002, the Company had an audited consolidated net tangible deficit of HK\$40,583,000. As a result of the negative net tangible asset value, the Company would be required to disclose and obtain shareholders' approval in respect of all acquisitions and realisations of assets, which could be extremely onerous to the Company. As such, the Company applied to the Stock Exchange for the De-minimis Concession which would allow the Company flexibility to carry out its business activities.

On 9th May 2003, the Company obtained approval from the Stock Exchange to adopt 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.

Each transaction (other than connected transaction) will be considered as de-minimis if (i) the transaction is carried out in the ordinary course of business of the Group; (ii) the transaction is entered based on normal commercial terms; and (iii) the consideration or the value of the transaction does not exceed HK\$1,000,000. In such circumstances, the "assets test" and the "consideration test" will not apply and such transactions will not be subject to any disclosure or shareholders' approval requirements.

The Stock Exchange's approval for the use of the De-minimis Concession will remain valid from 9th May 2003 until publication or the due date of publication of the Company's annual report for the year ending 31st December 2003, whichever is earlier.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2003, the interests of the directors in the shares and underlying shares of the Company (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO are as follows:

(a) Number of shares of HK\$0.01 each and underlying shares in the Company

Name of director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total interests as % of the relevant issued share capital
Mr. Chan Chak Shing	25,000,000 ⁽¹⁾	37,800,000 ⁽²⁾	781,372,870 ⁽³⁾	—	844,172,870	54.16
Mr. Chan Hon Ching	36,250,000 ⁽⁴⁾	—	—	—	36,250,000	2.32
Ms. Lo Mei Chun	4,200,000 ⁽⁵⁾	—	—	—	4,200,000	0.26
Ms. Chiu King Cheung	27,812,500 ⁽⁶⁾	—	—	—	27,812,500	1.78

Notes:

1. The personal interest of Mr. Chan Chak Shing represents the interest in 25,000,000 underlying shares in respect of the share options granted by the Company, the details of which are set out in the following section headed "Share options".
2. The family interest of Mr. Chan Chak Shing represents the interest in 33,000,000 shares and interest in 4,800,000 underlying shares in respect of the share options granted by the Company of the spouse of Mr. Chan Chak Shing, the details of which are set out in the following section headed "Share options".
3. 781,372,870 shares are held through WIHL, which is beneficially owned and controlled by Mr. Chan Chak Shing.
4. The personal interest of Mr. Chan Hon Ching represents the interest in 11,250,000 shares and interest in 25,000,000 underlying shares in respect of the share options granted by the Company, the details of which are set out in the following section headed "Share options".
5. The personal interest of Ms. Lo Mei Chun represents the interest in 2,600,000 shares and interest in 1,600,000 underlying shares in respect of the share options granted by the Company, the details of which are set out in the following section headed "Share options".
6. The personal interest of Ms. Chiu King Cheung represents the interest in 3,812,500 shares and interest in 24,000,000 underlying shares in respect of the share options granted by the Company, the details of which are set out in the following section headed "Share options".



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Share options

During the six months ended 30th June 2003, no options have been cancelled and lapsed under share option scheme adopted by the Company on 5th July 1997 (the "Share Option Scheme"). As at 30th June 2003, there were a total of 80,480,000 outstanding options under the Share Option Scheme. No options have been granted under the new share option scheme adopted on 20th June 2002 ("New Scheme"). Details of the share options outstanding under the Share Option Scheme are as follows:

Name	Date of grant	Exercise price	Number of options as at 1st January 2003	Options lapsed during the period	Options exercised during the period	Number of outstanding options as at 30th June 2003
<i>Directors</i>						
Mr Chan Chak Shing	1st September 1997	HK\$1.53	16,000,000	-	-	16,000,000
	31st March 1998	HK\$0.36	11,500,000	-	-	11,500,000
	16th February 2000	HK\$0.24	2,300,000	-	-	2,300,000
Mr Chan Hon Ching	1st September 1997	HK\$1.53	1,000,000	-	-	1,000,000
	31st March 1998	HK\$0.36	22,000,000	-	-	22,000,000
	16th February 2000	HK\$0.24	2,000,000	-	-	2,000,000
Ms Chiu King Cheung	1st September 1997	HK\$1.53	1,000,000	-	-	1,000,000
	31st March 1998	HK\$0.36	22,000,000	-	-	22,000,000
	16th February 2000	HK\$0.24	1,000,000	-	-	1,000,000
Ms Lo Mei Chun	1st September 1997	HK\$1.53	600,000	-	-	600,000
	30th October 2000	HK\$0.173	1,000,000	-	-	1,000,000
Employees	30th October 2000	HK\$0.173	80,000	-	-	80,000
			<u>80,480,000</u>	<u>-</u>	<u>-</u>	<u>80,480,000</u>



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

(b) Share options *(Continued)*

All the above options are exercisable within the period of 10 years from the date of grant.

The average exercise price of the share options granted is above the market value of the Company's shares as at 30th June 2003 and accordingly, the directors are of the view that the disclosure of the value of the share options granted is not meaningful.

All the interests disclosed above represent long position in the shares and the underlying shares of the Company. As at 30th June 2003, no short positions were recorded in the register required to be kept under Section 352 of the SFO.

Save as disclosed above, at no time during the six months ended 30th June 2003 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 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

As at 30th June 2003, the Company had been notified of the following substantial shareholders' interests in the shares in the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of shares held
WIHL	781,372,870

All the interests disclosed above represent long position in the shares of the Company.



PRACTICE NOTE 19 TO THE LISTING RULES

The following information is disclosed in accordance with the requirements under Practice Note 19 ("PN 19") to the Listing Rules:

(a) Trade and other receivables

As at 30th June 2003, the trade receivables of approximately HK\$4,761 and other receivables and prepayments of approximately HK\$398,533 were all due from independent third parties and incurred in the ordinary course of business of the Group.

The details of the abovementioned balances were as follows:

Name of the receivables	Nature	Amount HK\$
山西大同市金盾政通公司	Trade receivables	4,761
北京藍色國際軟件有限公司	Prepaid system removal expenses	16,972
Capital Networks Company Limited	Prepaid network fee	29,983
北京東華全嘉福餐飲娛樂有限公司	Deposits	56,474
Hutchison Telecommunications (Hong Kong) Limited	Deposits	500
Hong Kong and China Gas Company Limited	Deposits	600
Harbour View International House	Deposits	5,000
Bank of China (Hong Kong)	Deposits	980
China Resources Property Management Limited	Deposits	14,600
Sun Hung Kai Real Estate Agency Limited	Deposits	199,313
Beijing Xiyuan Hotel	Deposits	69,097
Beijing Union Shaber Beverage Company Limited	Deposits	94
Beijing Aric Property Management Company Limited	Deposits	3,472
Sand River Golf Club Limited	Deposits	1,448

As at 31st August 2003, an additional deposits of HK\$377 was placed to 北京四海依佳經貿有限公司. Further, there were additional amounts of HK\$566 and HK\$14,434 representing a receivable from PICC Property and Casualty Company Limited for an insurance claim and a prepaid insurance premium to Tai Ping Insurance Company Limited respectively.

As at 31st August 2003, the deposits paid to Beijing Aric Property Management Company Limited has been increased to HK\$4,809.



PRACTICE NOTE 19 TO THE LISTING RULES (Continued)

(b) Outstanding guarantee

深圳迪科信息技術有限責任公司 (Shenzhen DIC Information Technologies Company Limited), a company that is now a 70% owned subsidiary of the Company, gave a guarantee in respect of certain banking facilities granted to 深圳市迪科網絡有限公司 (Shenzhen Dico Net Company Limited), a third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules. The guarantee was given in favour of 興業銀行深圳分行 (Industrial Bank Co. Ltd. Shenzhen Branch) on 24th August 2000 before Shenzhen DIC Information Technologies Company Limited was acquired by the Company in October 2001.

As at 30th June 2003, the principal amount so guaranteed was approximately HK\$6,675,000.

Saved as disclosed above, there is no other disclosure required to be made by the Company pursuant to PN19.

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 2003.

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 ended 30th June 2003, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-Laws.

By order of the Board
Chan Chak Shing
Chairman

Hong Kong, 22nd September 2003