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## **RIVERHILL HOLDINGS LIMITED**

**山河控股有限公司\***

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

### **DISCLOSABLE TRANSACTION, CONNECTED TRANSACTION, CLARIFICATION ON USE OF LISTING PROCEEDS AND FURTHER INFORMATION UPDATE ON THE 2002 ANNUAL REPORT**

On 29 January 2002, Cyber World, a wholly owned subsidiary of the Company, entered into the Pledge, pursuant to which, Cyber World has pledged the Pledged Deposit as security for the Overdraft Facility. The term of the Overdraft Facility is one year renewable on an annual basis.

In February 2003, WPIL has agreed to repay HK\$5,000,000 of the Overdraft Facility and the Group on 10 February 2003 has requested for the remaining balance of the Pledged Deposit be released no later than 30 June 2003. On 15 February 2003, WPIL confirmed to the Group that Siping Wei Da, a wholly owned subsidiary of WPIL has received a loan of RMB5.5 million from an Independent Third Party and is in the process of remitting the entire amount to Hong Kong for the repayment of part of the Overdraft Facility on or about 10 March 2003. Further announcement will be made by the Company when the Pledged Deposit or any part of the Pledged Deposit has been released to the Group.

The provision of the Pledged Deposit constituted a disclosable transaction of the Company under Rule 19.06 of the GEM Listing Rules. It should have been subject to the notification and announcement requirements under Rules 19.33 and 19.36 of the GEM Listing Rules. The Company failed to disclose the Pledged Deposit, which constituted a breach of the GEM Listing Rules. The Company did not

disclose the pledging of the Pledged Deposit because the Directors mistakenly believed that the pledging of the Pledged Deposit was only subject to the disclosure requirements under Rule 17.15 of the GEM Listing Rules but not under Chapter 19 of the GEM Listing Rules, and that as such no disclosure is required from the Company as the Pledged Deposit constituted less than 25% of the net tangible assets of the Company at the time of the transaction.

On 10 April 2002, Beijing Spatial, a wholly owned subsidiary of the Company, entered into the Agreement with Inworld System in relation to the sale and purchase of the Software for an aggregate consideration of HK\$1,350,000.

Inworld System was and is a wholly owned subsidiary of Inworld Group Limited, which is owned as to approximately 32% by Styland Holdings Limited, a substantial shareholder of the Company. As such, Inworld System was and is a connected person of the Company under the GEM Listing Rules.

The Transaction constituted a connected transaction of the Company under Rule 20.12 of the GEM Listing Rules. It should have been subject to the reporting and announcement requirements under Rule 20.24 of the GEM Listing Rules. The Company failed to disclose the Transaction, which constituted a breach of the GEM Listing Rules.

The connected nature of the Transaction had been inadvertently overlooked by the Directors. The Company had failed to disclose the Transaction by way of press announcement and had failed to disclose the same in the 2002 Annual Report of the Company as required by the GEM Listing Rules.

The Company would also clarify a modification of the use of the Listing Proceeds and provide additional information update on certain sections of the 2002 Annual Report of the Company in this announcement.

**The Stock Exchange is looking into the timing and manner of disclosure in relation to the above and reserves its right to take action against the Company, the Directors and the relevant parties for the breaches of the GEM Listing Rules.**

A circular containing details of the Pledged Deposit will be sent to the shareholders of the Company as soon as practicable.

## **THE PLEDGED DEPOSIT**

### **Date**

29 January 2002

### **Parties and nature**

Borrower : WPIL, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to approximately 37.5% by Sino Talent Limited, as to 30.63% by Chongold Limited, as to approximately 11.06% by Ever-Long Investments Holdings Limited, as to approximately 10.81% by Best Gain Enterprise Limited, as to 5% by World Express Investments Limited and as to 5% by First Honour Limited

Lender : Bank of East Asia Limited

Pledgor : Cyber World, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company

Bank of East Asia Limited, Sino Talent Limited, Chongold Limited and First Honour Limited (together with their respective shareholders) are Independent Third Parties. The Directors confirmed that to the best of the Directors' knowledge, Sino Talent Limited, Chongold Limited and First Honour Limited (together with their respective shareholders) are independent third parties not connected with Styland Holdings Limited, Digital World Holdings Limited, Inworld Group Limited and their respective associates (as defined under the GEM Listing Rules).

Both Ever-Long Investments Holdings Limited and Best Gain Enterprise Limited are wholly owned subsidiaries of Styland Holdings Limited, a substantial shareholder of the Company. World Express Investments Limited is a wholly owned subsidiary of Digital World Holdings Limited which in turn owns approximately 3.45% of the issued share capital of the Company.

Bank of East Asia Limited provided WPIL the Overdraft Facility, as security to the Overdraft Facility, Cyber World pledged its cash deposits maintained with Bank of East Asia Limited in order to maintain a minimum loan-to-deposit ratio of 1:1 at nil consideration. The cash deposits of Cyber World constitute part of the Listing Proceeds.

The pledging of the Pledged Deposit constituted a disclosable transaction under the GEM Listing Rules as the value of the Pledged Deposit exceeded 15% of value of the net tangible assets of the Company at the relevant time and should have been subject to announcement requirement under Rule 19.33 of the GEM Listing Rules.

### **Reasons for the Pledge**

The Directors consider that the provision of the Pledged Deposit as security for the Overdraft Facility can provide WPIL with the financial resources required to implement its business plan to establish an intelligent transportation platform for crop transportation business in North Eastern China. The provision of the Pledged Deposit can secure the Group's position as the sole technology provider for the information technology platform to be established by WPIL in relation to its business plan. The Group will benefit from these new projects as the Group will be supplying software and hardware to the proposed platform. The Directors, including the independent non-executive Directors, consider that the terms of the Pledge are fair and reasonable and the pledging of the Pledged Deposit is in the interests of the shareholders of the Company as a whole as the Directors consider that it can help to maintain the good business relationship between the Group and WPIL which will bring future business opportunities to the Group.

### **Present status of the Pledged Deposit**

In February 2003, the Group and WPIL have agreed for the release of part of the Pledged Deposit after Siping Wei Da, a wholly owned subsidiary of WPIL receive a loan from an independent third party for RMB5.5 million. Upon receipt of the proceeds from this loan, WPIL would repay part of the Overdraft Facility and as a result, HK\$5,000,000 of the Pledged Deposit will be released. The Group and WPIL have agreed to extend the repayment of the balance of the Pledged Deposit of HK\$5,000,000 to 30 June 2003.

The Directors have been informed by WPIL on 15 February 2003 that Siping Wei Da, a wholly owned subsidiary of WPIL has received a loan of RMB5.5 million from an Independent Third Party and is in the process of remitting the proceeds from the loan to repay part of the Overdraft Facility. Upon the repayment of part of the Overdraft Facility by WPIL, the Directors expect that approximately HK\$5 million of the Pledged Deposit will be released by Bank of East Asia Limited. The Company has been informed that approval from the Foreign Exchange Bureau for the remittance of the loan proceeds by Siping Wei Da to WPIL has been granted and arrangements are being made to repay the Overdraft Facility. The Directors expect that the RMB5.5 million will be remitted to Hong Kong for partial settlement of the Overdraft Facility on or about 10 March 2003. Further announcement will be made by the Company when the Pledged Deposit or any part of the Pledged Deposit has been released to the Group.

If the Pledged Deposit is not released in full or if WPIL is unable to repay the Overdraft Facility and the Pledged Deposit is forfeited, the Group's proposed investment for the establishment of a joint venture for the provision of virtual reality and digital community management services and a joint venture for the supply and installation of GPS automatic vehicle locators as stated in the Prospectus may be delayed or the Group may have to fund its investments in these joint ventures from other sources.

### **Information about WPIL**

WPIL is engaged in the provision of transportation services to primarily crop growing entities in North Eastern China. It has over 100 trucks operating in the region. WPIL is interested in establishing an intelligent transportation platform for crop transportation business in North Eastern China to minimise the delay caused in the linkage of railway and road transportation, and storage cost. As at 31 October 2002, Siping Wei Da, being the only operating subsidiary of WPIL has an unaudited net asset value of approximately RMB65 million and WPIL is an investment holding company, no accounts have been prepared.

### **THE TRANSACTION**

#### **Date**

10 April 2002

#### **Parties and nature of the Transaction**

- |                 |   |   |
|-----------------|---|---|
| Beijing Spatial | : | Beijing Spatial, a company established in the PRC and a wholly owned subsidiary of the Company  |
| Inworld System  | : | Inworld System, a company incorporated in Hong Kong with limited liability and is a wholly owned subsidiary of Inworld Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed of GEM |

On 10 April 2002, Beijing Spatial entered into the Agreement with Inworld System to purchase the Software from Inworld System. As part of the Transaction, Inworld System also provided the Services. The Transaction was completed and settled in June 2002.

Since (i) Inworld System is engaged in the provision of information technology contract services and software distribution; and (ii) leveraged on their experience and expertise, the Directors consider that Inworld System was able to tailor-made an information system which acted as a platform to enhance the Group's business of research, development and integrated applications and solutions. The Group has commissioned Inworld System to undertake the development of the Software primarily because of the technical competence of Inworld System, the negotiation on price and the standard of work required. All negotiations between the Group and Inworld System were conducted on arms length basis.

Since the acquisition of the Software and the issue of the 2002 Annual Report of the Company, the Group has successfully bid for the contracts for the design and development of a land ownership management system in Jiangxi and a computerised administration system in Chengdu in November 2002 and February 2003 respectively using the Software. The Group has also used certain applications developed from the Software to bid for several projects which included a project for the establishment of an electronic document control system for a publication company and an automated administration system for a government authority in Beijing, the PRC.

### **Basis of consideration**

The aggregate consideration of the Transaction was HK\$1,350,000, which was payable by Beijing Spatial to Inworld System within one month after the Services had been provided by Inworld System and funded by the Listing Proceeds.

The consideration was reached after arm's length negotiations between Beijing Spatial and Inworld System. The consideration paid to Inworld System was determined based on the fact that for the Group to develop similar software internally, the Group is likely to incur a higher cost than the consideration paid by the Group for the acquisition of the Software from Inworld System and the market knowledge of the relevant staff members of the Group. The Group did not obtain formal quotations from other software companies for the development of the Software because of the time pressure on the Group to make available the Software for the bidding of the relevant projects. The Directors were also aware of the bidding for the government authorities in Jiangxi, Chengdu and Beijing and the development of the electronic document control system for the publication company referred to above. As such, the Directors were confident that the acquisition of the Software would shorten the time required to develop the necessary application for the bidding of the above projects and hence improve the Group's chance of securing the bid. Based on the above, the Board considers that the Transaction had been conducted on normal commercial terms base on the estimated cost to be incurred by the Group if the Software was to be developed by the Group internally.

### **INFORMATION OF THE GROUP**

The Group is engaged in the research, development and provision of integrated applications and solutions using Geographic Information System, Remote Sensing, Global Positioning Systems, virtual reality, internet and networking technology. As such, the Board (including the independent non-executive Directors) considers that the Transaction had been conducted in ordinary and usual course of business of the Group. The Board also considers that the terms of the Transaction were fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **INFORMATION ON INWORLD SYSTEM**

Inworld System is principally engaged in the provision of information technology contract services and software distribution. It is a wholly owned subsidiary of Inworld Group Limited, which is owned as to approximately 32% by Styland Holdings Limited. Styland Holdings Limited in turn is a substantial shareholder of the Company. As such, Inworld System is a connected person of the Company under the GEM Listing Rules.

## **REASONS FOR FAILURE TO DISCLOSE THE PLEDGED DEPOSIT AND THE TRANSACTION**

The Pledged Deposit was pledged as security to the Overdraft Facility which occurred in early 2002 and at the relevant time the Company had only been listed on GEM for several months and the Directors were inexperienced to handle compliance issues in accordance with the GEM Listing Rules. In this connection, the Directors believed that the pledging of the Pledged Deposit was only subject to the disclosure requirements under Rule 17.15 of the GEM Listing Rules but not under Chapter 19 of the GEM Listing Rules, as such no disclosure is required from the Company as the Pledged Deposit constituted less than 25% of the net tangible assets of the Company at the time of the transaction. Due to a decline in the net asset value of the Company, as at 31 December 2002, the Pledged Deposit constituted more than 25% of the net asset value of the Company, as such, the Directors have made relevant disclosure in the interim report of the Company for the six months ended 31 December 2002. Consequently, the Directors did not consider a separate announcement under Chapter 19 of the GEM Listing Rules in relation to the Pledged Deposits as necessary. The Stock Exchange is looking into the timing of the disclosure.

At the material time when the Group entered into the Transaction, the Directors held a mistaken belief that an “associate” of a connected person as defined under the GEM Listing Rules means, among others, a company in which the connected person directly or indirectly interested so as to control the exercise of 35% or more of the voting power and at general meeting. As such, the fact that Inworld System was a connected person of the Company within the meaning of the GEM Listing Rules had been inadvertently overlooked by the Directors. The Company had failed to disclose the Transaction by way of an announcement and had failed to disclose the same in the annual report of the Company for the year ended 30 June 2002 as required by the GEM Listing Rules.

## USE OF PROCEEDS

Due to prolonged delays in the negotiation of certain joint ventures investments by the Group, the planned usage of the Listing Proceeds as stated in the Prospectus has not been strictly adhered to by the Group since early 2002, as a result the Directors would like to clarify the use of the Listing Proceeds and here follows a comparison between the planned usage of the Listing Proceeds as stated in the Prospectus and the actual use of such proceeds up to 31 December 2002:

|   | <b>Aggregate use of<br/>proceeds as stated<br/>in the Prospectus<br/>(up to 30 June 2003)</b><br><i>HK\$</i> | <b>Actual progress<br/>(as of 31 December 2002)</b><br><i>HK\$</i>                    |
|---|--|---|
| Geographic expansion and marketing      | 4 million  | 2.9 million   |
| Research and development                | 12 million   | 3.4 million   |
| Setting up joint venture                | 12.5 million   | Nil   |
| Investment in research and data centers | 11.5 million   | 7.8 million   |
| General working capital                 | 17.75 million  | 25.3 million<br>(operating loss,<br>investment in inventories,<br>fixed assets, etc.) |
| Repayment of shareholders' loan         | 0  | 1.6 million   |
| Increase in listing expenses            | 0  | 0.75 million  |
| Pledged Deposit                         | 0  | 10 million  |
| Balance as of 31 December 2002          | N/A  | 6 million   |
| Total                                   | 57.75 million  | 57.75 million   |

### Modification to the use of Listing Proceeds

It was stated in the Prospectus that shareholders' loan amounted to approximately HK\$13.6 million were outstanding when the Company was listed on GEM and these shareholders' loan will be repaid by internal resources of the Group. The Company disclosed in its 2002 Annual Report that shareholders' loan amounted to approximately HK\$13.6 million has been repaid during the year ended 30 June 2002 and would like to clarify that approximately HK\$12 million of the repayment were funded by internal resources of the Group and the remaining balance of approximately HK\$1.6 million were repaid with Listing Proceeds which was not originally planned.

Due to a delay in the negotiation of certain joint venture projects by the Group, a portion of the Listing Proceeds has not been utilised by the Group as stated in the Prospectus. This unutilised portion of the Listing Proceeds has been instead used by the Group to fund its general working capital. The Directors have, on two previous occasions, made disclosures in relation to the modification to the use of the Listing Proceeds in the 2002 Annual Report of the Company and in the interim report of the Company for the six months ended 31 December 2002. However, the Directors will ensure appropriate announcement will be made in future should any situation where there is a modification to the use of the Listing Proceeds.

As disclosed in p.34 of the 2002 Annual Report of the Company, the Company has made cash advances with an aggregate amount of approximately HK\$25 million for the year ended 30 June 2002 of which approximately HK\$20 million were repaid during the same period with the remaining HK\$5 million repaid in full during the six months ended 31 December 2002. Approximately HK\$9 million of these advances were made to staff members of the Group including the assistant to the Group's chairman; the Group's accounting officer; and the Group's administration officer. The approximately HK\$16 million remaining were advanced to business associates of the Group, including renren Limited; the chairman of Inworld Group Limited; Dynamic Rich Limited, a wholly owned subsidiary of Digital World Holdings Limited; and a director of Digital World Holdings Limited. The advances were granted for retaining quality staff and for developing business relationship in a view to generating business opportunities including the bidding of an office automation system integration project of a government authority in the PRC and the digitalisation of the video library for a television broadcaster. The cash used to fund these cash advances was part of the Listing Proceeds. Two of these advances with an aggregate amount of HK\$8,576,960 were made interests free because one of these advances (HK\$5,000,000) were made to a business partner of the Group in connection with the bidding of a project in the PRC and the other interest free advance of HK\$3,576,960 was made to a staff member of the Group who had taken a pay-cut in conjunction with the interest-free advance.

To avoid future breaches of the disclosure requirements under the GEM Listing Rules, a special committee of the Board will be established to review the existing internal control of the Group and to suggest ways for improving the internal procedures of the Group.

## **FURTHER INFORMATION ON THE 2002 ANNUAL REPORT**

Reference is made to the qualified opinion made by the then auditors of the Company in the 2002 Annual Report of the Company. In the 2002 Annual Report of the Company, the then auditors of the Company expressed concern on the lack of evidence available to them on the value of information technology contract to be generated from certain software with an aggregate cost of HK\$2,350,000. Since the publication of the 2002 Annual Report of the Company, the Group has utilised these software namely a human resources system and a network security system, to enter into information technology contracts to the value of approximately HK\$3,300,000, in addition the Group has also received a government subsidy of RMB500,000 from the Hi-Tech Research and Development of China commissioned by the Ministry of Science and Technology, the PRC. These software were used in the development of the applications in the bidding and the development of the relevant prototypes for the above projects. The human resources system provided a platform for the redevelopment of database management systems and the network security system was an integral part of the railway GIS platform that involves a vast amount of data to be shared in various locations along the railway system.



## GENERAL

A circular containing details of the Pledged Deposit will be sent to the shareholders of the Company as soon as practicable.

It was only upon enquiries being made by the Stock Exchange following the issue of the 2002 annual report that the Company became aware of the need:

- (1) for prompt publication of a separate announcement under Chapter 19 of the GEM Listing Rules regarding the Pledged Deposits;
- (2) for prompt publication of a separate announcement under Chapter 20 of the GEM Listing Rules regarding the Transaction; and
- (3) for prompt publication of a separate announcement regarding the modification of the use of listing proceeds.

**The Stock Exchange is looking into the timing and manner of disclosure in relation to the above and reserves its right to take action against the Company, the Directors and the relevant parties for the breaches of the GEM Listing Rules.**

## DEFINITIONS

Unless the context otherwise requires, the following words and phrases used in this announcement have the same meanings assigned to each of them below:

|                     |  |
|---------------------|--|
| “Agreement”         | the agreement dated 10 April 2002 and entered into between Beijing Spatial and Inworld System in relation to the sale and purchase of the Software       |
| “Beijing Spatial”   | Beijing Spatial Port Technology Ltd., a wholly owned subsidiary of the Company and a wholly owned foreign enterprise established in the PRC              |
| “Board”             | the board of Directors   |
| “Company”           | Riverhill Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on GEM         |
| “Cyber World”       | Cyber World Technology Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company |
| “Directors”         | the directors of the Company   |
| “GEM”               | the Growth Enterprise Market of the Stock Exchange   |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM   |

|                                      |   |
|--------------------------------------|---|
| “Geographical Information System”    | a computerised information system that uses geographical points as reference for relating data, including demographic economic, social, commercial and environmental data into an organised system that supports inquiry, analysis, graphical presentation, simulation and solutions suggestion |
| “Global Positioning System” or “GPS” | a satellite based radio positing system that provides 24-hours three-dimensional position, velocity and time information to users anywhere on or near the surface of the earth equipped with suitable receivers   |
| “Hong Kong”                          | the Hong Kong Administrative Region of the PRC  |
| “Independent Third Party(ies)”       | person(s) who is/are independent of and not connected with, the chief executive, Directors, management shareholders and substantial shareholders of the Company or its subsidiaries and their respective associates (as defined in the GEM Listing Rules)                                       |
| “Inworld System”                     | Inworld System (HK) Limited, a company incorporated in Hong Kong  |
| “Listing Proceeds”                   | the net proceeds from the Share Offer   |
| “Overdraft Facility”                 | the HK\$10,000,000 overdraft facility provided by Bank of East Asia Limited to WPIL on 29 January 2002  |
| “Pledge”                             | The deed of charge on cash deposit placed with the Bank to secure Third Party Obligations” executed by Cyber World in favour of Bank of East Asia Limited dated 29 January 2002   |
| “Pledged Deposit”                    | the HK\$10,000,000 cash deposits maintained by Cyber World with Bank of East Asia Limited pledged as security for the Overdraft Facility pursuant to the Pledge   |
| “PRC” or “China”                     | the People’s Republic of China  |
| “Prospectus”                         | the prospectus of the Company dated 18 May 2001   |
| “Remote sensing”                     | the technology of capturing data about the environment and the surface of the earth through satellites and aerial photography for the production of images which can be used for graphical presentation and analysis.   |
| “Services”                           | the system analysis, system development, testing, software-integration, front-page design and post-launch support services provided by Inworld System to Beijing Spatial in relation to the Software  |
| “Share Offer”                        | the offer of shares by the Company as detailed in the Prospectus  |
| “Siping Wei Da”                      | Siping Wei Da, a company established in the PRC and a wholly owned subsidiary of WPIL   |

|                  |   |
|------------------|---|
| “Software”       | the human resources information system purchased by Beijing Spatial from Inworld System                       |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited   |
| “Transaction”    | the sale and purchase of the Software in accordance with the terms of the Agreement                           |
| “WPIL”           | Well Pacific Investments Limited, a company incorporated in the British Virgin Islands with limited liability |
| “HK\$”           | Hong Kong Dollars   |
| “RMB”            | Renminbi  |
| “%”              | per cent.   |

By Order of the Board  
**Riverhill Holdings Limited**  
**Yick Chong San**  
*Director*

Hong Kong, 4th March, 2003

*This announcement will remain on the GEM website on the “Latest Company Announcements” page for 7 days from the day of its posting.*

\* *for identification purpose only*