



## **RIVERHILL HOLDINGS LIMITED**

**山河控股有限公司\***

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

### **INTERIM RESULTS FOR 2002**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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## RESULTS

The board of Directors (the “Board”) of the company presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	<i>Notes</i>	<b>For the three months ended</b>		<b>For the six months ended</b>	
		<b>31st December, 2002</b>	<b>2001</b>	<b>31st December, 2002</b>	<b>2001</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
TURNOVER	2	631,617	1,011,496	2,020,863	1,564,625
Cost of sales		<u>(525,023)</u>	<u>(958,337)</u>	<u>(1,360,536)</u>	<u>(1,045,284)</u>
Gross profit		106,594	53,159	660,327	519,341
Other revenue	2	162,178	621,544	219,592	1,466,832
Selling and distribution costs		(229,576)	(640,853)	(852,517)	(1,332,768)
General and administrative expenses		(3,089,224)	(3,172,262)	(6,607,237)	(5,706,081)
Depreciation		<u>(602,815)</u>	<u>(789,245)</u>	<u>(924,832)</u>	<u>(1,512,663)</u>
LOSS FROM OPERATING ACTIVITIES	3	(3,652,843)	(3,927,657)	(7,504,667)	(6,565,339)
Finance costs	4	–	(67,335)	–	(216,237)
Share of losses of associates		<u>(157,228)</u>	<u>–</u>	<u>(285,798)</u>	<u>–</u>
LOSS BEFORE TAX		(3,810,071)	(3,994,992)	(7,790,465)	(6,781,576)
Tax	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
LOSS BEFORE MINORITY INTERESTS		(3,810,071)	(3,994,992)	(7,790,465)	(6,781,576)
Minority interests		<u>110,319</u>	<u>–</u>	<u>232,882</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(3,699,752)</u>	<u>(3,994,992)</u>	<u>(7,557,583)</u>	<u>(6,781,576)</u>
Loss per share – basic	6	<u>(0.89 cent)</u>	<u>(0.96 cent)</u>	<u>(1.82 cents)</u>	<u>(1.63 cents)</u>

## CONSOLIDATED BALANCE SHEET

As at 31st December, 2002

		<b>Unaudited 31st December, 2002 HK\$</b>	<b>Unaudited 31st December, 2001 HK\$</b>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	8	4,166,425	4,503,105
Interests in associates		7,402,713	6,134,579
Pledged deposit	9	10,000,000	–
		<u>21,569,138</u>	<u>10,637,684</u>
<b>CURRENT ASSETS</b>			
Inventories		4,147,081	2,301,253
Trade receivables	10	176,813	1,742,337
Prepayments, deposits and other receivables	11	8,518,294	21,623,344
Cash and bank balance		6,066,650	32,277,384
		<u>18,908,838</u>	<u>57,944,318</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accrued liabilities		652,163	545,754
Trade payables	12	–	297,960
Deferred revenue	11	2,367,353	1,191,589
Tax payable		316,000	316,000
Due to a shareholder		–	7,928,083
		<u>3,335,516</u>	<u>10,279,386</u>
<b>NET CURRENT ASSETS</b>		<u>15,573,322</u>	<u>47,664,932</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		37,142,460	58,302,616
<b>MINORITY INTERESTS</b>		9,849	(560,748)
		<u>37,152,309</u>	<u>57,741,868</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital		41,500,000	41,500,000
Reserves		(4,347,691)	16,241,868
		<u>37,152,309</u>	<u>57,741,868</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December, 2002

	<i>Notes</i>	<b>Unaudited 31st December, 2002 HK\$</b>	<b>Unaudited 31st December, 2001 HK\$ (Restated)</b>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<i>13</i>	(1,897,771)	(26,862,725)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		39,597	545,447
Interest paid		–	(216,237)
Net cash inflow arising on acquisition of a subsidiary		–	560,748
Net cash inflow from returns on investment and servicing of finance		39,597	889,958
Net cash outflow from investing activities		(150,325)	(7,283,203)
DECREASE IN CASH AND CASH EQUIVALENTS		(2,008,499)	(33,255,970)
Cash and cash equivalents at the beginning of the period		8,075,149	65,533,354
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>6,066,650</u>	<u>32,277,384</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>6,066,650</u>	<u>32,277,384</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st December, 2002

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st July, 2001	41,500,000	16,287,993	7,906,202	(1,170,751)	64,523,444
Loss for the period	—	—	—	(6,781,576)	(6,781,576)
At 31st December, 2001	<u>41,500,000</u>	<u>16,287,993</u>	<u>7,906,202</u>	<u>(7,952,327)</u>	<u>57,741,868</u>
At 1st July, 2002	41,500,000	16,287,993	7,906,202	(20,984,303)	44,709,892
Loss for the period	—	—	—	(7,557,583)	(7,557,583)
At 31st December, 2002	<u>41,500,000</u>	<u>16,287,993</u>	<u>7,906,202</u>	<u>(28,541,886)</u>	<u>37,152,309</u>

Notes:

### 1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and the disclosure requirements in relation to half-year results as set out in Chapter 18 of the GEM Listing Rules. They have been prepared under the historical cost convention. The accounting policies adopted by the Group are consistent with those followed in the annual financial statements for the year ended 30th June, 2002.

The consolidated financial statements have been prepared using the merger basis of accounting.

## 2. Turnover and segment information

The Group's turnover represents the value of services rendered and the net invoiced value of goods sold, after allowances for the returns, trade discounts and sales tax.

Segment information is presented in respect of the Group's business and geographical segments as follows:

### (a.) Business segments

	Sales of software and hardware		Provision of information technology contract services		Corporate and Other		Consolidated	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
	<i>(Restated)</i>		<i>(Restated)</i>		<i>(Restated)</i>		<i>(Restated)</i>	
Segment revenue:								
Sales to external customers	1,915,090	1,539,765	105,773	24,860	–	–	2,020,863	1,564,625
Other revenue	179,441	524,824	–	–	554	396,561	179,995	921,385
Total	<u>2,094,531</u>	<u>2,064,589</u>	<u>105,773</u>	<u>24,860</u>	<u>554</u>	<u>396,561</u>	<u>2,200,858</u>	<u>2,486,010</u>
Segment results	<u>(2,141,721)</u>	<u>(2,507,832)</u>	<u>(2,555,407)</u>	<u>(1,181,630)</u>	<u>(2,847,136)</u>	<u>(3,421,324)</u>	<u>(7,544,264)</u>	<u>(7,110,786)</u>
Interest income							39,597	545,447
Loss from operating activities							(7,504,667)	(6,565,339)
Finance costs							–	(216,237)
Share of losses of associates							(285,798)	–
Loss before tax							(7,790,465)	(6,781,576)
Tax							–	–
Loss before minority interests							(7,790,465)	(6,781,576)
Minority interests							232,882	–
Net loss from ordinary activities attributable to shareholders							<u>(7,557,583)</u>	<u>(6,781,576)</u>

### (b.) Geographical segments

No geographical segment information is presented as the Group's segment revenue and segment results were wholly derived from activities conducted inside the People's Republic of China (including the Hong Kong) during the three months period and six months period ended 31st December, 2001 and 31st December, 2002 respectively.

### 3. Loss from operating activities

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the three months ended		For the six months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Cost of inventories sold	525,023	958,337	1,268,161	1,045,284
Cost of services rendered	–	–	92,375	–
Depreciation	602,815	789,245	924,832	1,512,663
Minimum lease payments under operating lease in respect of land and buildings	450,761	307,553	938,939	546,642
Staff costs (including directors' remuneration)				
Wages and salaries	1,627,854	1,748,608	3,373,506	3,487,836
Pension scheme contributions	34,371	34,812	79,028	82,535
Interest income	(22,727)	(178,211)	(39,597)	(545,447)

### 4. Finance costs

	For the three months ended		For the six months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Interest expenses paid to a shareholder	–	67,335	–	216,237

### 5. Taxation

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

Beijing Spatial Port Technology Ltd., the Company's subsidiary, is located in Haidian District, Beijing, one of the PRC's "High Technology Industrial Development Zones". In accordance with the relevant tax rules and regulations in the PRC, the company is entitled to exemption from corporate income tax ("CIT") for the three years from 2000 to 2002, and is entitled to a 50% exemption from CIT for the next three years from 2003 to 2005. It is subject to CIT at a reduced rate of 15%. The Company did not generate any assessable profits during the period (2001: Nil).

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

### 6. Loss per share

The calculation of the basic loss per share for the three months ended 31st December, 2002 was based on the net loss attributable to shareholders for the period of HK\$3,699,752 (2001: net loss of HK\$3,994,992) and on the weighted average number of 415,000,000 ordinary shares (2001: 415,000,000).

The calculation of the basic loss per share for the six months ended 31st December, 2002 was based on the net loss attributable to shareholders for the period of HK\$7,557,583 (2001: net loss of HK\$6,781,576) and on the weighted average number of 415,000,000 ordinary shares (2001: 415,000,000).

The diluted loss per share has not been presented as the outstanding options had an anti-dilutive effect on the basic loss per share for the period.

## 7. Interim dividend

The directors do not recommend the payment of any interim dividend for the six months ended 31st December, 2002 (2001: Nil).

## 8. Fixed assets

	<b>Computer equipment and software HK\$</b>	<b>Furniture, fixtures, motor vehicles and equipment HK\$</b>	<b>Total HK\$</b>
Opening net book amount	3,181,217	1,759,715	4,940,932
Additions	–	150,325	150,325
Depreciation	<u>(677,434)</u>	<u>(247,398)</u>	<u>(924,832)</u>
Net book value:			
At 31st December, 2002	<u>2,503,783</u>	<u>1,662,642</u>	<u>4,166,425</u>
At 31st December, 2001	<u>3,124,749</u>	<u>1,378,356</u>	<u>4,503,105</u>

## 9. Pledged deposit

At the balance sheet date, the Group had pledged a fixed deposit of HK\$10 million to a bank as security for a facility granted to Well Pacific Investments Limited, an investee company of a shareholder of the Company. The facility had been utilised to the extent of approximately HK\$9.9 million at 31st December, 2002. The pledge has not been released up to the date of approval of these financial statements. The intended purpose of the pledged deposit was to secure future revenue referrals to the Group by the company.

## 10. Trade receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 1 month, extending up to 2 months for major customers.

An ageing analysis of trade receivables is set out below:

	<b>As at 31st December, 2002 HK\$</b>	<b>As at 31st December, 2001 HK\$</b>
Within 1 month	12,588	93,458
1 to 2 months	56,748	–
Over 2 months	<u>107,477</u>	<u>1,648,879</u>
	<u>176,813</u>	<u>1,742,337</u>



## 11. Deferred revenue/Prepayments, deposits and other receivables

Included in deferred revenue is a contract service fee of approximately HK\$1,822,000 received in advance from Siping Wei Da Transportation Engineering Co., Ltd. (“Siping Wei Da”), a subsidiary of Well Pacific Investments Limited (see note 9) which is an investee company of a shareholder of the Company, in respect of GPS related contract. Included in prepayments, deposits and other receivables at 31st December, 2002 is a deposit of approximately HK\$2,243,000 paid to a related company of Siping Wei Da in respect of purchases of hardware and software for the same contract. The above GPS contract has not been completed as at the balance sheet date.

## 12. Trade payables

An ageing analysis of trade payables is set out below:

	As at 31st December, 2002 HK\$	As at 31st December, 2001 HK\$
Within 1 month	–	192,660
Over 3 months	–	105,300
	<u>–</u>	<u>297,960</u>

## 13. Consolidated cash flow statement

Reconciliation of loss from operating activities to net cash outflow from operating activities:

	31st December, 2002 HK\$	31st December, 2001 HK\$ <i>(Restated)</i>
Loss from operating activities	(7,504,667)	(6,565,339)
Depreciation	924,832	1,512,663
Interest income	(39,597)	(545,447)
Decrease/(increase) in inventories	18,893	(908,374)
Decrease in trade receivables	2,758,888	7,218,477
Decrease/(increase) in prepayments, deposits and other receivables	4,174,097	(18,645,980)
Decrease in other payables and accrued liabilities	(2,546,998)	(2,185,102)
Decrease in trade payables	(156,179)	(2,272,295)
Increase in deferred revenue	472,960	1,191,589
Decrease in an amount due to a shareholder	–	(5,662,917)
	<u>(1,897,771)</u>	<u>(26,862,725)</u>

## **Financial overview**

For the six months ended 31st December, 2002, revenue derived from the software and hardware distribution business increased by 24% to approximately HK\$1,915,090 (2001: HK\$1,539,765), representing approximately 94.77% of the Group's total turnover for the relevant financial period. The improvement in sales was attributable to an expansion in the Group's client base and the Group's continuing marketing efforts. We believe that the marketing efforts would be further paid off as the concluded sales contracts in this business segment in the period from 1st July, 2002 to 31st December, 2002 amounted to approximately HK\$4.33 million with approximately HK\$2.2 million to be recognised after of 31st December, 2002. The Group has started to provide system development support to NTT Data China in these few months. The Directors believe that the business from NTT Data China should increase and become one of the income streams of the Group if the Group continues to provide satisfactory outputs to NTT Data China.

Total operating costs increased as a result of an increase in overheads following the expansion of the Group's sales network in Shenzhen, Wuhan, Xi'an, Shanghai, Changsha and Jingzhou. The Group recorded a segmental loss in respect of its software and hardware distribution business of approximately HK\$2,141,721 (2001: HK\$2,507,832). The Group has implemented measures, including further rationalization of the corporate and business structures with a view to improving profitability. Further actions will be taken to ensure the effective allocation of resources in ensuring the sustainable development of the Group.

Over this same period, revenue derived from the Group's GIS and GPS contract services business amounted to approximately HK\$105,773 (2001: HK\$24,860). The Group recorded a loss of HK\$2,555,407 (2001: HK\$1,181,630) for this division during this financial year and was mainly attributable to an increase in overheads and headcount. The Company is currently engaged in a number of projects including the establishment of a GPS monitoring center for a transportation company, the design and establishment of a land ownership management system for a government authority in Jiangxi province, and the system integration of a railway geographic information system for the Ministry of Railway. In February 2003, the Group has also received a notice regarding the Group's winning of the bidding for the establishment of a computerized administration system for the government authority in Chengdu. The directors believed that completion of these projects should improve performance of this segment in this financial year.

As of 31st December, 2002, the Group has a cash balance of approximately HK\$16 million placed in interest-bearing deposits in Hong Kong and the PRC, with HK\$10,000,000 pledged in favor of an overdraft facility granted to a customer by a bank in Hong Kong. We believe that the cash flow position and financial strength of the Group will be improved through further execution of our business and investment plans.

## **Business Review**

### *Software and Hardware Distribution*

During the six months ended 31st December, 2002, the Group has successfully penetrated into various industries including environmental protection, railway and transportation and oil exploitation. Marketing efforts have been dedicated to building customer awareness and brand image for the Group for the long term. We believe that the Group's investment in marketing activities have already started to pay off as the Group has concluded sales contracts in the amount of approximately HK\$4.6 million in the seven months ended 31st January, 2003, i.e. already exceeded the Group's total turnover in the whole financial year ended 30th June, 2002 (HK\$4,418,284). The Group will continue to strive for a better result in this segment in the second half of the financial year.

### *Public Geographic Information Services*

With the co-operation with the Beijing Tourism Administration, the Group is expanding its Internet kiosk network in Beijing. As of December 2002, the Group has set up a total of 18 terminals in various locations in Beijing. The Group is closely monitoring the response of the end users on these services. Further resources will be injected into this area if it is proven that the public is increasing the recognition of these services.

### *Geographic Information System and Global Positioning System*

In November 2002, and February 2003, the Group has successfully bid for the contracts for the design and development of a land ownership management system in Jiangxi and a computerized administration system in Chengdu respectively. Also, the Group has started to provide system integration support for NTT Data China in the period. The co-operation started with a small project, and the Directors are confident that increasing projects will be granted to the Group from NTT Data China, provided that the Group continues to satisfy their requirements. In addition, the Group has been following up the bidding of a few projects, including the establishments of an electronic document control system for a publication company, an automated administration system for a government authority in Beijing and a pollution monitoring system for a government authority in Xiamen. The Directors believe that the efforts of the Group in following up these projects will be paid off in the coming months. With the ongoing projects including the establishment of a GPS monitoring center, and the development and integration of a railway information system, and the above new business developments, the Directors believe that the outlook of this segment is reasonably optimistic.

### *Research and Development*

The Company has, jointly with Peking University, won the project “Wireless Applications for Spatial Information” under the Hi-Tech Research and Development Program of China (the “863 Program”) commissioned by the Ministry of Science and Technology, the PRC. The Company received the second payment of subsidy of Rmb500,000 in December 2002. The directors are confident that additional funds will be received so long as the Company continues to make steady progress in the project. The proceeds from the 863 Program provide additional funds for the Group to support its research and development activities. In September, 2002, the Group won the other project, “The Research in the Application of 3S in the Logistic System in Railways”, under the 863 Program. The first payment of subsidy under this project of Rmb500,000 was received by the Group in January 2003.

### **Acquisitions and disposals of subsidiaries and affiliated companies**

During the six months ended 31st December, 2002, the Group has not acquired or disposed any stake in any companies. The Group holds 35% interest in Beijing Cityonmap Technology Co., Ltd. (“Cityonmap”) which manufactures and markets wireless GIS and GPS terminals with a full system of services supporting the gadgets. In July 2002, Cityonmap was picked by the Beijing Economic Committee as one of the participants in the “Beijing Major Innovative Industrial Project, 2002” and has received a subsidy of Rmb1,000,000 from the Committee to support its research and development activities. Also, the National Economic Committee has accredited the product of Cityonmap, i.e. the personal computer with advanced navigation features, as one of the “National New Products 2002”. As of September 2002, the first batch of 500 of these navigation personal computers, which was aimed to test the market, was sold out and over 95% of the sales proceeds has been received. The Directors are also satisfied with the sales performance of Cityonmap’s products during the Christmas and Chinese New Year period. The Directors also believe that the performance of Cityonmap will be improved in the rest of 2003 if appropriate marketing strategy is adopted.

## **Investments**

The Group made no material investment since 30th June, 2002.

## **Future plans for material investments and capital assets**

The Group is still in negotiation with the property developer in Beijing with a view to forming a joint venture for the provision of board band access and related network services to the residents in the estates constructed or to be constructed by the property developer. In addition, the Management is closely monitoring the performance of Cityonmap, and the Group may consider increasing its stake in Cityonmap to further consolidate the technological competence and marketing resources of the Group and Cityonmap. The Group is also in negotiation with a company in the PRC for the co-operation in providing technological support to an organization in the national defence industry. The negotiation is still preliminary at the moment, and any substantial progress will be disclosed to the public in due course.

## **Working capital**

As at 31st December, 2002, the net current assets of the Group amounted to approximately HK\$15,573,322. The current assets comprised cash and cash equivalents of approximately HK\$6,066,650, and inventories, debtors, deposits and other receivables of approximately HK\$12,842,188. The Group's cash and cash equivalents of HK\$6,066,650, comprised of approximately HK\$4,933,681 and RMB1,212,276, are placed in interest bearing deposits. The current liabilities of the Group comprised of creditors, other payables and accruals, and other current liabilities of approximately HK\$3,335,516.

## **Liquidity and financial resources**

The gearing ratio of the Group, based on total liabilities to shareholder's equity, was 0.09 (31st December, 2001: 0.18) as at 31st December, 2002.

On 29th January, 2002, the Group has pledged a cash deposit of HK\$10,000,000 against a bank loan granted by Bank of East Asia Limited to a business partner of the Group, Well Pacific Investments Limited ("Well Pacific"). The amount of this pledged deposit has exceeded 25% of the net assets of the Group as of 31st December, 2002. The term of the bank loan is one year. The Group is engaged in a project for the establishment of a GPS monitoring center for Well Pacific. The Group believes that the successful completion of the project and the provision of the performance bond can secure the Group's position as the sole technology provider for the Information Technology Platform for the Logistic System in North Eastern China, which was founded by Well Pacific and other entities, including certain government bodies. The Group has entered into an agreement with Well Pacific for the release of the pledged deposit in February 2003. Well Pacific has successfully applied for a loan from another party, and the first amount (Rmb5,500,000) has been received by a subsidiary of Well Pacific in mid February 2003. Well Pacific agreed that these funds would be used to repay the bank overdraft. The Group has agreed with Well Pacific to extend the balance of the pledged deposit amounting to HK\$5,000,000 to support Well Pacific's business development, particularly for the establishment of the transportation information system platform in which, Well Pacific has agreed to appoint the Group as the preferred provider of software and hardware. However, the Group has required the pledged deposit to be released no later than 30th June, 2003 as Well Pacific agreed to find alternative ways of financing in the coming 4-5 months. Save as the above, the Group did not have any outstanding charges on Group assets as at 31st December, 2002 (2001: nil).

## **Capital structure**

During the six months ended 31st December, 2002, there was no change in the Company's share capital. As at 31st December, 2002, the Group's operations were financed mainly by shareholder's equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources.

## **Hedging policy**

The Group primarily focuses on the PRC market, and revenue is normally denominated in the Renminbi. The Group believes that the Renminbi will not be devalued in the near future and, therefore no hedging measures have been taken for the present.

## **Contingent Liabilities**

Saved as the pledged deposit of HK\$10 million mentioned in the above "Liquidity and financial resources" section. The Group did not have any contingent liability as at 31st December 2002.

## **Staff**

As at 31st December 2002, there were 106 employees of the Group (2001: 88). The remuneration of the Group amounted to approximately HK\$3,452,534 for the six months ended 31st December 2002 (2001: HK\$3,570,371). The increase in the Group's headcount was attributable to the acquisitions of a few subsidiaries and the establishment of a branch in Shenzhen. There was nevertheless a decrease in total salary as the Group has been adjusting its human resource structure, particularly in the Beijing and Hong Kong offices, so as to improve profitability. The Group remunerated its staff based on their qualification, performance and the prevailing labour market condition.

## **Change of Auditors**

The Group has appointed Charles Chan, Ip & Fung CPA Ltd., as the Groups' auditor on 8th November, 2002 to replace Ernst and Young.

## **Share Option Scheme**

The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme on 14th May, 2001. Details of the two share options schemes are set out in the section headed "Share Option Schemes" in the Interim Report and the prospectus of the Group dated 18th May, 2001. As at 31st December, 2002, the Company had granted 40,000,000 options under the Pre-IPO Share Option Scheme, of which three executive directors and two independent non-executive directors were granted options to subscribe for an aggregate of 16,480,000 shares at an exercise price of HK\$0.60 each. For the six months ended 31st December, 2002, no option has been cancelled and lapsed under the Share Option Scheme.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

### **Modification to the Use of Proceeds**

Following the listing of the Company's shares on GEM on 1st June, 2001, and up to 31st December, 2002, the Group has utilized approximately HK\$41 million of the net proceeds of the Share Offer. Approximately HK\$2.9 million was spent on geographic expansion and marketing, and another HK\$3.4 million was spent on research and development. This differs from the intended use of the net proceeds of the Share Offer earmarked for the period from 11th May, 2001, being the latest practicable date for ascertaining certain information in the prospectus, and up to 31st December, 2002 (the "Relevant Period") as stated in the prospectus of the Company dated 18th May, 2001 (the "Prospectus").

As stated in the Prospectus of the Company, the Group plans to use a total of HK\$25.9 million of the net proceeds of the Share Offer during the Relevant Period, and particularly (i) HK\$2.4 million for geographic expansion and marketing, (ii) HK\$4.0 million for research and development, (iii) HK\$12.5 million for setting up joint ventures, and (iv) HK\$7.0 million for investments in research and data centres.

The prolonged negotiation relating to various joint venture investments has resulted in a delay in the execution of the Group's investment plan. The Group is currently in negotiation with a property developer in Beijing in finalizing the terms for the formation of a joint venture to provide services, including broad band access to intranet and the Internet, video on demand, intelligent security and related series.

The Group invested HK\$5.2 million to acquire a 35% stake in a research and technological venture, Cityonmap which has launched its first product, a PDA with advanced navigation features, in January 2002. The Group's research and development team and Cityonmap are working closely to explore business opportunities in wireless GIS and location based services. Since Cityonmap has also invested in a company in Shanghai that is engaged in the design and establishment of intelligent transport system, the Group is working through this Shanghai outlet to reach potential customers in Eastern China. The Group has also spent an aggregate of approximately HK\$2.6 million to acquire the stakes in four companies in Xi'an, Wuhan, Changsha and Jingzhou to expand the public geographic service and the marketing networks.

The unused proceeds, amounting to approximately HK\$16 million is placed in interest bearing deposits with banks, with HK\$10 million pledged in favor of an overdraft facilities provided to a customer by a bank in Hong Kong.

**According to the business objectives as stated in the Prospectus for the Relevant Period.**

**Actual business progress for the Relevant Period**

**BUSINESS DEVELOPMENT**

- To increase the market share of the Group by seeking new projects through the promotion of the services provided by the Group via the new sales offices set up in Xiamen, Shenzhen, Changsha, Kunming and Guilin

The Group has established its office in Shenzhen, and also invested in companies in Wuhan, Xian, Jiangzhou and Changsha respectively. The Group decided it would be more cost effective to follow up projects and carry out marketing activities with the existing business establishments. The marketing team is actively following up projects, including the establishment of an environmental protection monitoring system in Xiamen.

- To launch the beta versions of CyberCommunity

The development of the beta versions of CyberCommunity has reached the final stage. It will be launched after the final debugging.

**RESEARCH AND DEVELOPMENT**

- To start the upgrading of CyberHouse

The Group has decided to continue with the current version of CyberHouse as the demand for this product does not justify frequent upgradings.

- To set up the upgrade plans for CyberCommunity

The Group has decided to continue with the current version of CyberCommunity as the demand for this product does not justify frequent upgradings.

- To continue the testing and development of new data mining software

The testing and development of new data mining software is undergoing. Some of the result has already been applied in the bidding for some projects, particularly those automated administration system.

**According to the business objectives as stated in the Prospectus for the Relevant Period.**

**Actual business progress for the Relevant Period**

**MARKETING**

- To host a seminar for customers  
The Group has hosted more than one seminar for customers in updating them on new products and services, and enhancing the communication between the Group and customers.
- To carry out a complete update of the customer database.  
The updating of the customer database has been completed. The marketing team will continue to track changes and keep the database up to date constantly.
- To develop business relations with ten to twenty 3S and networking application providers.  
The Group has been in business relations with over ten 3S and networking application, including Intergraph Inc., MicroImages, etc. The Group has also started to provide technical support to NTT Data China in late 2002.
- To participate in and to sponsor industrial seminars and conferences.  
The Group has participated in various industrial seminars and conferences particularly the ones related in 3S applications.
- To publish a company bulletin  
The Group has reconsidered the effectiveness of this plan, and decided that there may be more cost effective way to enhance the communication between the Group, the customers, and the employees. The Group is still considering alternative to be adopted.

By Order of the Board  
**Riverhill Holdings Limited**  
**Wang Guo Wei**  
*Director*

Beijing, 13th February, 2003



## OTHER INFORMATION

### Directors' Interests in Shares

At 31st December, 2002, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

#### *Ordinary shares of the Company*

Name of director	Number of shares held and nature of interest		
	Personal	Corporate	Total
Wang Guo Wei	1,920,000	–	1,920,000
Liu Hao	1,200,000	–	1,200,000
Yick Chong San	–	105,921,569 *	105,921,569
	<u>3,120,000</u>	<u>105,921,569</u>	<u>109,041,569</u>

\* 105,921,569 shares of the Company are held by Cyber Town Company Limited and are beneficially owned as to 30% by Mr. Yick Chong San.

### Directors' Rights to Acquire Shares or Debentures

Pursuant to the Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), on 14th May, 2001, the Company granted certain options to the following directors which entitle the holders to subscribe for ordinary shares of the Company. Further details of the Pre-IPO Share Option Scheme are set out under the heading "Share option scheme" below. No share option was exercised by any director during the period.

Details of the share options outstanding at the balance sheet date are as follows:

Name of director	Date of grant	Number of	Exercise price
		options outstanding at 31st December, 2002	
Wang Guo Wei	14th May, 2001	1,760,000	0.6
Liu Hao	14th May, 2001	8,160,000	0.6
Yick Chong San	14th May, 2001	5,760,000	0.6
Hong Jun Yan	14th May, 2001	400,000	0.6
Zhou Qi Ming	14th May, 2001	400,000	0.6
		<u>16,480,000</u>	

The directors will be entitled to exercise (i) one-third of the options after the expiry of two years from 1st June, 2001; (ii) one-third of the options after the expiry of three years from 1st June, 2001; and (iii) the remaining options after the expiry of four years from 1st June, 2001.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### **Share Option Schemes**

Pursuant to the Company's share option scheme adopted on 14th May, 2001 (the "Share Option Scheme"), the Company may grant options to executive directors and employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options.

The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the options; (ii) the average of the closing prices of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and the pre-IPO share option scheme, as described below, shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

No option was granted by the Company under the Share Option Scheme since its adoption.

Pursuant to a written resolution of the sole shareholder of the Company dated 4th May, 2001, the Company also adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"). The terms of the Pre-IPO Share Option Scheme are substantially the same as those under the Share Option Scheme except that:

- (1) the subscription price is HK\$0.60;
- (2) the aggregate number of shares subject to the Pre-IPO Share Option Scheme is 40,000,000;
- (3) the grantees eligible for the options include employees who are not in full-time employment, independent non-executive directors and consultants and advisers to the Group; and
- (4) the option holder will be entitled to exercise (i) one-third of the options after the expiry of two years from 1st June, 2001; (ii) one-third of the options after the expiry of three years from 1st June, 2001; and (iii) the remaining options after the expiry of four years from 1st June, 2001.

No options were granted during the period. Details of the share options outstanding at the balance sheet date are as follows:

Categories of grantees	Date of grant	Number of options outstanding at 31st December, 2002	Exercise price of options HK\$
Directors of the Company and its subsidiaries	14th May, 2001	16,480,000	0.6
Employees of the Group	14th May, 2001	23,520,000	0.6
		<u>40,000,000</u>	

No options have been cancelled and lapsed during the period.

### Substantial Shareholders

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

Name of shareholder	Number of shares held	Percentage of shares held
Global Eagle Investments Limited	114,509,804	27.59%
Cyber Town Company Limited*	105,921,569	25.52%
Cyber City Technology Limited	57,254,902	13.8%

\* *Cyber Town Company Limited is beneficially owned as to 30% by Mr. Yick Chong San.*

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance

### Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

### Sponsor's Interest

Anglo Chinese Corporate Finance, Limited has confirmed:

- (i) neither itself nor its associate has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Group (including options or rights to subscribe such securities);

- (ii) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited who are involved in providing advice to the Company has or may have, any interest in any class of securities of the Company or any other Company within the Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such directors or employee pursuant to the share offer); and
- (iii) no director or employee or their associates of Anglo Chinese Corporate Finance, Limited has a directorship in the Company or any other company within the Group.

### **Director's Interest in Competing Business**

During the period, none of the directors nor the substantial shareholders of the Company had any interest in any business that directly or indirectly competed with the business of the Group.

### **Board Practices and Procedures**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period ended 31st December, 2002.

### **Audit Committee**

The Company established an audit committee comprising two non-executive directors of the Company on 4th May, 2001, with written terms of reference for the purpose of reviewing and supervising the financial reporting process and internal control procedures of the Group. Seven meetings have been held by the members of the audit committee since its formation.