

Asia Logistics Technologies Limited

亞洲物流科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003



Asia Logistics
Technologies
亞洲物流科技



INTERIM RESULTS

The board of directors (the "Board") of Asia Logistics Technologies Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 together with the comparative figures for the corresponding period last year are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
	Notes		
TURNOVER	2	3,116	18,454
Cost of sales		(3,195)	(18,551)
Gross loss		(79)	(97)
Other revenue		331	1,496
Selling and distribution costs		(3,202)	(3,109)
Administrative expenses		(14,590)	(19,081)
Loss on deemed disposal of subsidiaries	3	–	(696)
Other operating expenses		(2,788)	(11,524)
LOSS FROM OPERATING ACTIVITIES	4	(20,328)	(33,011)
Finance costs	5	(594)	(977)
Share of results of:			
Jointly-controlled entity		(149)	–
Associates		(14,231)	(11,433)
Amortization of goodwill on acquisition of associates		(488)	(201)
LOSS BEFORE TAX		(35,790)	(45,622)
Tax	6	–	–
LOSS BEFORE MINORITY INTERESTS		(35,790)	(45,622)
Minority interests		–	4,450
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(35,790)	(41,172)
Basic loss per share	7	(HK 0.98) cent	(HK1.28) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		5,455	5,946
Goodwill		98,816	101,443
Investment in a jointly-controlled entity		113	262
Investments in associates	8	94,805	109,524
Long term listed investments		1,520	1,520
		200,709	218,695
CURRENT ASSETS			
Due from a jointly-controlled entity		230	230
Due from an associate		1,103	1,103
Exchangeable notes	9	–	28,000
Inventories		7,258	7,258
Trade receivables	10	2,311	1,069
Prepayments, deposits and other receivables		5,358	7,905
Cash and cash equivalents	11	48,879	37,668
		65,139	83,233
CURRENT LIABILITIES			
Trade payables	12	576	722
Tax payable		183	183
Other payables and accruals		9,607	9,595
Finance lease payables		84	83
Due to associates		688	802
Due to a related company		376	376
		11,514	11,761
NET CURRENT ASSETS		53,625	71,472
TOTAL ASSETS LESS CURRENT LIABILITIES		254,334	290,167
NON-CURRENT LIABILITIES			
Finance lease payables		183	226
Convertible bond		39,286	39,286
		39,469	39,512
		214,865	250,655
CAPITAL AND RESERVES			
Issued capital	13	36,415	36,415
Reserves	14	178,450	214,240
		214,865	250,655

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(16,013)	(6,615)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	27,265	(61,578)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(41)	24,647
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,211	(43,546)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	37,668	130,548
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	48,879	87,002
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,741	44,775
Non-pledged time deposits with original maturity less than three months when acquired	43,138	42,227
	48,879	87,002

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited	
	For the six months	
	ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Total equity at 1 January	250,655	296,172
Placement of new shares	–	1,591
Premium on issue of shares	–	19,603
Loss for the period attributable to shareholders	(35,790)	(41,172)
Total equity at 30 June	<u>214,865</u>	<u>276,194</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies used in these unaudited condensed financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31 December 2002 except as described below.

During the period ended 30 June 2003, the Group adopted SSAP 12 (revised) "Income Taxes" for the first time in preparation of the current period's condensed consolidated financial statements.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous SSAP 12, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (revised) had no significant effect on the results for the current or prior accounting periods.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

2. Turnover and segment information

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered.

An analysis of turnover and contribution to loss from operations of the Group by business and geographical segment is as follows:

Business Segments

	Logistics Technology		Logistics Services		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>2,106</u>	<u>18,454</u>	<u>1,010</u>	<u>–</u>	<u>3,116</u>	<u>18,454</u>
Segment results	<u>(13,651)</u>	<u>(25,308)</u>	<u>(6,968)</u>	<u>–</u>	<u>(20,619)</u>	<u>(25,308)</u>
Other revenue					331	1,496
Unallocated expenses					<u>(40)</u>	<u>(9,199)</u>
Loss from operating activities					(20,328)	(33,011)
Finance costs					(594)	(977)
Share of results of:						
Jointly-controlled entity					(149)	–
Associates					(14,231)	(11,433)
Amortization of goodwill on acquisition of associates					<u>(488)</u>	<u>(201)</u>
Loss before tax					(35,790)	(45,622)
Tax					<u>–</u>	<u>–</u>
Loss before minority interests					(35,790)	(45,622)
Minority interests					<u>–</u>	<u>4,450</u>
Net loss from ordinary activities attributable to shareholders					<u>(35,790)</u>	<u>(41,172)</u>

2. Turnover and segment information (Continued)

Geographical Segments

	Revenue by geographical markets Six months ended 30 June		Segment Results Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	1,634	3,079	(8,746)	(11,466)
Mainland China	1,482	15,375	(11,873)	(13,842)
	<u>3,116</u>	<u>18,454</u>	<u>(20,619)</u>	<u>(25,308)</u>

3. Loss on deemed disposal of subsidiaries

On 21 March 2002, the Company and Legend Group Limited ("Legend") entered into a conditional subscription agreement pursuant to which Legend agreed to subscribe (or procure its nominee to subscribe) for 2,550 new ordinary shares in Han International Consulting Company Limited ("Han") at a cash consideration of HK\$55 million, which would represent 51% of the entire issue share capital of Han immediately after completion of the subscription. As a result of this transaction, the Company's shareholding percentage in Han was reduced, by way of dilution, to 30%. Accordingly, Han ceased to be a subsidiary of the Company and its results ceased to be consolidated in the group financial statements of the Company immediately following the issue of the new shares of Han. A loss on deemed disposal of approximately HK\$696,000 was charged to the profit and loss account.

4. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold and services provided	3,195	18,551
Depreciation	1,064	569
Staff costs, excluding directors' remuneration:		
Salaries	9,137	16,818
Retirement benefits scheme contributions	97	125
	9,234	16,943
Amortization of goodwill	2,627	2,008
Write off of fixed assets	161	1,013
Provision for impairment of long term listed investments	–	8,503
and after crediting:		
Bank interest income	140	556

Cost of inventories sold and services provided includes HK\$3,195,000 (2002: HK\$18,551,000) relating to staff costs, depreciation, operating lease rentals in respect of land and buildings which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

5. Finance costs

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within 1 year	–	211
Interest on convertible bond	585	584
Interest on finance leases	9	7
Other interest paid	–	175
	594	977

6. Taxation

No tax has been provided for the six months ended 30 June 2003 as the Group did not derive any assessable profits during the period (2002: Nil).

No recognition of the potential deferred tax assets relating to tax losses has been made as the recoverability of this potential deferred tax assets is uncertain. (2002: Nil).

7. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the six months ended 30 June 2003 of HK\$35,790,000 (2002: HK\$41,172,000) and the weighted average of 3,641,555,700 (2002: 3,228,148,521) ordinary shares in issue during the period.

Diluted loss per share for the periods ended 30 June 2003 and 2002 have not been shown, as the share options and the convertible bond outstanding during these periods had anti-dilutive effect on the basic loss per share for these periods.

8. Investments in associates

Included in the Group's share of net assets of associates is the share of the net assets of New World CyberBase Limited ("NWCB"), a company incorporated in Bermuda and the shares of which are listed on the Stock Exchange, and its subsidiaries (collectively the "NWCB Group") which, in the opinion of the directors, is material in the context of the Group's financial statements. Extracts of the audited consolidated balance sheet and audited consolidated profit and loss account of the NWCB Group, based on the published audited annual consolidated financial statements of the NWCB Group for the year ended 31 March 2003, are set out below:

NWCB Group

	Audited As at 31 March 2003 HK\$'000
Non-current assets	400,197
Current assets	23,426
Current liabilities	(75,528)
Non-current liabilities	(94,000)
	<u>254,095</u>
	Audited Year ended 31 March 2003 HK\$'000
Turnover	<u>36,183</u>
Loss before tax	(44,864)
Tax	—
Minority interests	<u>198</u>
Loss attributable to shareholders	<u>(44,666)</u>

NWCB's financial year end date is 31 March, which is not coterminous with the Group.

9. Exchangeable notes

On 19 September 2002, Digital Spirit Limited ("Digital Spirit"), a wholly-owned subsidiary of the Company, subscribed for exchangeable notes of HK\$28 million issued by two independent third parties (the "Issuers"). Each of the Issuers held 25% of the issued share capital of Eastern Info Limited ("Eastern Info"), a company incorporated in the British Virgin Islands. Eastern Info owns 100% equity interest in 北京掌運科技有限公司 ("Beijing Technology"), a company registered in the People's Republic of China (the "PRC") and an integrated logistics and supply chain technology services provider in the PRC. Mr. Zhao Rui, who became a director of the Company since 30 October 2002, is also a director of Beijing Technology.

On 1 April 2003, Digital Spirit entered into agreements with the Issuers, pursuant to which Digital Spirit demanded early redemption and repayment of the entire principal amount of HK\$14 million from each of the Issuers and the Issuers agreed to repay the principal amount in accordance with the repayment schedule set out therein. Digital Spirit received HK\$11 million from each of the Issuers in April 2003 and the remaining aggregate principal amount of HK\$6 million before the reporting date.

10. Trade receivables

Included in trade receivables are debtors with the following ageing analysis:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Current to 90 days	2,311	486
91 to 180 days	—	583
	<u>2,311</u>	<u>1,069</u>

11. Cash and cash equivalents

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Cash and bank balances	5,741	10,120
Time deposits	43,138	27,548
	<u>48,879</u>	<u>37,668</u>

12. Trade payables

The trade payable balances as at 30 June 2003 and 31 December 2002 were aged less than three months.

13. Share capital

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
<i>Issued and fully paid:</i>		
3,641,555,700 (31 December 2002: 3,641,555,700) ordinary shares of HK\$0.01 each	36,415	36,415

On 30 June 2003, options to subscribe for an aggregate of 159,300,000 shares of the Company were outstanding. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 159,300,000 new ordinary shares of HK\$0.01 each.

14. Reserves

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	268,594	(4,246)	264,348
Premium on issue of shares	19,603	–	19,603
Net loss for the period	–	(41,172)	(41,172)
At 30 June 2002	288,197	(45,418)	242,779
Premium on issue of shares	20,401	–	20,401
Share issue expenses	(718)	–	(718)
Net loss for the period	–	(48,222)	(48,222)
At 31 December 2002	307,880	(93,640)	214,240
Net loss for the period	–	(35,790)	(35,790)
At 30 June 2003	307,880	(129,430)	178,450

15. Commitments not provided for in the financial statements

(a) Capital commitments

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Contracted, but not provided for: Capital contributions payable to a jointly-controlled entity	390	390

15. Commitments not provided for in the financial statements (Continued)

(b) *Operating lease arrangements*

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Future minimum lease payments under non-cancellable operating leases falling due as follows:		
Within one year	1,005	664
In the second to fifth years, inclusive	410	120
	1,415	784

16. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2003 and 31 December 2002.

17. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business during the period are summarised as follows:

	Six months ended 30 June 2003 HK\$'000	2002 HK\$'000
Rental and office administrative expenses paid to related companies (<i>note a</i>)	620	587
Reimbursements of rental and office administrative expenses from a related company (<i>note b</i>)	284	–
Purchase of certain office equipment from a related company (<i>note c</i>)	–	46
Interest income in relation to a loan advanced to a related company (<i>note d</i>)	–	737
Interest paid for the convertible bond (<i>note e</i>)	585	584
Rental of office equipment and motor vehicle from a related company (<i>note f</i>)	–	54
Corporate advisory fee paid to a related company (<i>note g</i>)	–	502
Interest and securities handling and scrip fee paid to a related company (<i>note h</i>)	16	337
Acquisition of 2.073% equity interest of Fusion Tech Holding Limited ("Fusion Tech") (<i>note i</i>)	–	3,000
Subscription and underwriting of rights shares issued by NWCB (<i>note j</i>)	–	44,184
Transfer of rental and utility deposits and certain fixed assets to a related company (<i>note k</i>)	–	1,215
Transfer of certain fixed assets from a related company (<i>note l</i>)	–	1,100

17. Related party transactions (Continued)

Notes:

- (a) The amount was charged for the provision of office space and the sharing of office administrative expenses. The rental expense was charged with reference to the then market rental and the administrative expenses were charged on an actual cost incurred basis, taking into account the headcount and/or area occupied.
- (b) The amount was reimbursed for the provision of office space and the sharing of office administrative expenses actually incurred. The rental expense was charged with reference to the then market rental and the administrative expenses were reimbursed on an actual cost incurred basis, taking into account the headcount and/or area occupied.
- (c) The purchase of certain office equipment from a related company was made on terms mutually agreed between the parties.
- (d) The Group advanced a loan to Tai Fook Finance Company Limited, a wholly-owned subsidiary of Tai Fook Securities Group Limited ("TFSGL"), of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director and substantial shareholder. The loan was unsecured, bore interest at 3.5% – 4.5% per annum and was fully repaid in September 2002.
- (e) The Company paid interest to New World CyberBase Nominee Limited, the convertible bond holder, of which a director of the Company is also a director. The interest was charged at 3% per annum and was payable semi-annually in arrears.
- (f) The rental of office equipment and a motor vehicle from a related company controlled by a director of the Company were made on terms mutually agreed between the parties.
- (g) The Group paid certain corporate advisory fee to Tai Fook Capital Limited, a wholly-owned subsidiary of TFSGL. The corporate advisory fee was charged in accordance with terms mutually agreed between the parties.
- (h) The Group paid interest and securities handling and scrip fees to Tai Fook Securities Company Limited ("Tai Fook Securities"), a wholly-owned subsidiary of TFSGL. The interest and fees were charged in accordance with terms mutually agreed between the parties.
- (i) On 2 January 2002, the Group agreed to purchase 2,073 shares of US\$1.00 each, representing 2.073% of the issued share capital of Fusion Tech, of which a director of the Company is also a director, at a cash consideration of HK\$3,000,000.
- (j) On 20 February 2002, the Company and Tai Fook Securities entered into an underwriting agreement with NWCB, of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director and substantial shareholder. The rights issue of shares of NWCB was completed in April 2002 and the total consideration for the subscription and underwriting of NWCB shares was HK\$44,184,000 after the deduction of the underwriting commission received. Since then, the Company's interest in NWCB increased to approximately 27.5% and the interest in NWCB has been equity accounted for.
- (k) The Group transferred certain rental and utility deposits of approximately HK\$545,000 to 漢普管理諮詢(中國)有限公司 ("HAN China"), a then subsidiary of the Company which subsequently became an associate of the Company during the previous period, and disposed of certain computer and office equipment with a net book value of approximately HK\$670,000 to HAN China at nil consideration.
- (l) Han transferred certain office equipment with a net book value of approximately HK\$1.1 million to the Company at HK\$1.00 according to the subscription agreement of shares of Han entered on 21 March 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2003, the Group recorded a turnover of approximately HK\$3.1 million against approximately HK\$18.5 million for the corresponding period in the previous year, representing a decrease of 83.1%. The decrease in turnover was mainly due to the deemed disposal of major subsidiaries of the Group in May 2002 and under performance of the Group's growing logistics services business as a result of the outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the reporting period. Loss attributable to shareholders amounted to approximately HK\$35.8 million against last year's net loss of approximately HK\$41.2 million. The loss has been narrowed down as a result of the Group's continuous control of its operation costs.

Financial Position

During the period under review, the Group financed its business development by means of internal resources. As at 30 June 2003, cash and bank balances for the Group amounted to approximately HK\$48.9 million (31 December 2002: HK\$37.7 million). The Group has no bank borrowing as at 30 June 2003 (31 December 2002: nil). Notwithstanding this situation, the gearing ratio of the Group as at 30 June 2003, dividing the outstanding amount of convertible bond and non-current finance lease payable by shareholders' equity, was 0.184 (31 December 2002: 0.158).

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars and Renminbi. During the period under review, there has been minimal fluctuation in exchange rate between Hong Kong dollars and Renminbi and accordingly, the Group's exposure to currency exchange risk was minimal.

Business Review

In the first half of 2003, the Group, as a fourth party logistics ("4PL") solutions and services provider, continued its focus on the development of its integrated 4PL solutions to further strengthen its competitive edge in the logistics services market in China.

The Group through its key operating arm, Asia Logistics (Tianjin) Limited, offers a wide range of logistics value-added services and solutions with its established nationwide network in China. Its solutions provide customers with timely, economical and reliable one-stop, door-to-door integrated logistics services, which include logistics management consulting, warehousing, transportation, packaging, goods tracking systems and professional training. In line with its strategy to reinforce its 4PL solutions and services, the Group has strengthened its truck-line network in China. With the expansion of its distribution service stations in its cross-province truck-line network, customers are presented with more comprehensive delivery channels and networks.

The Group continued to enhance its core solutions and services as well as its value-added services to customers with a greater focus on regional logistics projects. Through the cooperation with Haikou Harbour Group Co., a national integrated corporation in Hainan province, the Group assisted the company with the provision of total logistics services and the establishment of a total logistics network for Haikou Harbour. Given this logistics network, the "Freshness Highway" ("新鮮通途") campaign, a pilot logistics project, was launched in cooperation with the Hainan provincial government. The project introduces high-end logistics technology to the agricultural industry in Hainan province, to enhance the competitiveness of its quality agricultural products nationwide and to accelerate the logistics activities of the province's agricultural products.

Business activities, including logistics business in China, have returned to normal after the fallout of the SARS epidemic at the end of the period under review. In addition to this Hainan project, the Group obtained new pilot projects from Carrefour Supermarket and Guangdong Jianlibao Group Co., Ltd. during the period under review.

Capitalizing on its extensive knowledge in the logistics industry and solid experience in supply chain and logistics consultancy services, the Group offers turnkey supply chain and logistics consultancy services. During the six-month period, it worked on the implementation of the second phase of its major projects for Tianjin Zhongxin Pharmaceutical Group Corporation Ltd. and Exel Singapore Pte. Ltd.

The Group is committed to providing best-fit solutions using advanced logistics technologies to ensure that customers will enjoy safe, economical and reliable logistics services. Adding to its technology model which combines electronic logistics and mobile commerce, the Group has invested in the research and development of a new logistics information application and service system that integrates a range of advanced technologies. This system pools the capabilities of top-notch Global Positioning Systems (GPS), Geographic Information Systems (GIS) and mobile technologies, to provide real-time information enquiries, ordering services and vehicle position monitoring to customers in the near future.

In line with the vision of the Chinese government in developing the globalization of the IT industry, the Group's joint venture HanZen Technologies Consulting (Zhuhai) Limited ("HanZen") commenced its penetration of the China market with the provision of the Software Engineering Institute's Capability Maturity Model (SEI-CMM) Level 5 credentials quality consultancy services to local software corporations. These world-recognized SEI-CMM credentials assist the corporations to realize their quality control implementation for their information technology to international standards. China's entry to the World Trade Organisation ("WTO") also intensified the need of many enterprises, particularly state-owned enterprises, to reform themselves and enhance their competencies in facing the growing competition from foreign companies. Additionally, HanZen also offers international standards software development and support services to both local and global customers in China.

The XiAn Research and Development Centre and 北方交大亞洲物流研究中心 (established with 北方交通大學現代物流研究所) continue to provide service and strong research and development support to the Group's solution implementation. At the same time, 北方交大亞洲物流研究中心 also provides internal training on logistics to Group staff to enhance their knowledge and capabilities in the logistics services industry.

The Group is also committed to promoting and driving the development of the logistics industry, as well as to enhance the professionalism of the industry, in China. It has lined up with professors and top specialists from several well-known universities and leading logistics corporations in both China and Hong Kong to organize logistics management training courses that are tailored for practitioners in the logistics industry and for individuals who are interested in starting a career in the industry.

Prospects

The full support of the Chinese government is creating tremendous potential for the logistics market in China. The recent signing of the Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and China is providing strong encouragement to selected local industries, including the logistics business, to develop their business in the China market. On the logistics side, CEPA includes the liberation of regulations for the sole operation of logistics, warehousing, road transportation and harbour service businesses by Hong Kong companies in China, which is one to two years ahead of the WTO timetable. For other selected local industries, the Group believes CEPA presents favourable conditions for more industry operators, and particularly manufacturers to establish a foothold in China. This will accelerate logistics activities and fuel logistics demand, further boosting the current logistics service market and creating enormous opportunities for the Group.

Looking ahead, the Group will continue to ride on its strong competitive edge in the market to capture every opportunity to benefit from the new and flourishing prospects for logistics services in the market. Leveraging its comprehensive logistics capabilities, supported by high-end technology and up-to-date information technology, its enhanced services and solutions, together with its extensive international market experience, the Group will also continue to enhance its solutions and services through investment and collaboration to enable it to stay ahead of the competition and to accelerate its business growth, and to become a one-stop supply chain and logistics solutions and services provider in the Greater China region.

Employees

As at 30 June 2003, the Group had 250 employees. Apart from salaries, the Group also provides training and other fringe benefits to employees, which include provident funds, medical insurance and share options. The remuneration policy and packages of the Group's employees are reviewed on a regular basis.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2003 (2002: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS

At 30 June 2003, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which were recorded in the register required to be kept by the Company under section 352 of the SFO were as follows:

(1) Long position in the shares of the Company

Name of director	Number of shares			Percentage of shareholding
	Corporate interests	Family interests	Total	
Lo Lin Shing, Simon	1,129,758,000 (Note a)	–	1,129,758,000	31.02%
Chan Ki	225,400,000 (Note b)	40,900,000 (Note c)	266,300,000	7.31%

Notes:

- (a) These shares were held by Golden Infinity Co., Ltd. which is wholly owned by Mr. Lo Lin Shing, Simon. Accordingly, Mr. Lo Lin Shing, Simon is deemed to be interested in 1,129,758,000 shares held by Golden Infinity Co., Ltd. under the SFO.
- (b) These shares were held by Silver Valley Limited which is wholly owned by Mr. Chan Ki. Accordingly, Mr. Chan Ki is deemed to be interested in 225,400,000 shares held by Silver Valley Limited under the SFO.
- (c) These shares were held by Full Smart Development Limited which is wholly owned by Ms. Fong Wai Na, the spouse of Mr. Chan Ki. Accordingly, Mr. Chan Ki is deemed to be interested in 40,900,000 shares held by Full Smart Development Limited under the SFO.

(2) Long position in underlying shares of the Company

Pursuant to the share option scheme adopted by the Company on 11 September 1998, certain directors in the capacity as beneficial owners were granted share options to subscribe for shares of the Company, details of which were set out in the section headed "SHARE OPTION SCHEME" below.

Save as disclosed above, as at 30 June 2003, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which were recorded in the register required to be kept by the Company under section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "SHARE OPTION SCHEME" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

So far as is known to the directors of the Company, as at 30 June 2003, shareholders (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

(1) Long position in the shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
<i>Substantial shareholders:</i>			
Golden Infinity Co., Ltd.	Beneficial owner	1,129,758,000 (Note a)	31.02%
Ku Ming Mei, Rouisa	Interest of spouse	1,129,758,000 (Note b)	31.02%

Name	Capacity	Number of shares	Percentage of shareholding
<i>Other shareholders:</i>			
Silver Valley Limited	Beneficial owner	225,400,000 (Note c)	6.19%
Fong Wai Na	Interest of a controlled corporation and interest of spouse	266,300,000 (Note d)	7.31%
New World CyberBase Nominee Limited	Beneficial owner	100,000,000	2.75%
New World Telephone Holdings Limited	Interest of a controlled corporation	100,000,000 (Note e)	2.75%
New World Development Company Limited	Interest of a controlled corporation	100,000,000 (Note e)	2.75%

Notes:

- (a) Golden Infinity Co., Ltd. is wholly owned by Mr. Lo Lin Shing, Simon, a director of the Company.
- (b) These shares represent the interests held by Golden Infinity Co., Ltd. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon, a director of the Company and accordingly, she is deemed to be interested in 1,129,758,000 shares held by Golden Infinity Co., Ltd. under the SFO.
- (c) Silver Valley Limited is wholly owned by Mr. Chan Ki, a director of the Company.
- (d) These shares represent the aggregate interests in 225,400,000 shares held by Silver Valley Limited and 40,900,000 shares held by Full Smart Development Limited. Ms. Fong Wai Na is the spouse of Mr. Chan Ki and the beneficial owner of the entire issued share capital of Full Smart Development Limited. Accordingly, Ms. Fong Wai Na is deemed to be interested in 225,400,000 shares held by Silver Valley Limited and 40,900,000 shares held by Full Smart Development Limited under the SFO.
- (e) New World CyberBase Nominee Limited is a wholly-owned subsidiary of New World Telephone Holdings Limited which is in turn a wholly-owned subsidiary of New World Development Company Limited. Accordingly, New World Telephone Holdings Limited and New World Development Company Limited are deemed to be interested in 100,000,000 shares held by New World CyberBase Nominee Limited under the SFO.

(2) Long position in the underlying shares of the Company

Name	Capacity	Category of equity derivatives	Number of underlying shares
Ku Ming Mei, Rouisa	Interest of spouse	unlisted, physically settled	77,000,000 (Note a)
Fong Wai Na	Interest of spouse	unlisted, physically settled	57,000,000 (Note b)
New World CyberBase Nominee Limited	Beneficial owner	unlisted, physically settled	392,860,000
New World Telephone Holdings Limited	Interest of a controlled corporation	unlisted, physically settled	392,860,000 (Note c)
New World Development Company Limited	Interest of a controlled corporation	unlisted, physically settled	392,860,000 (Note c)

Notes:

- (a) This represents the interest of Mr. Lo Lin Shing, Simon, the spouse of Ms. Ku Ming Mei, Rouisa and a director of the Company, in the share options granted by the Company under the share option scheme of the Company.
- (b) This represents the interest of Mr. Chan Ki, the spouse of Ms. Fong Wai Na and a director of the Company, in the share options granted by the Company under the share option scheme of the Company.
- (c) New World CyberBase Nominee Limited is a wholly-owned subsidiary of New World Telephone Holdings Limited which is in turn a wholly-owned subsidiary of New World Development Company Limited. Accordingly, New World Telephone Holdings Limited and New World Development Company Limited are deemed to be interested in 392,860,000 underlying shares held by New World CyberBase Nominee Limited under the SFO.

Save as disclosed above, as at 30 June 2003, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

At an extraordinary general meeting of the Company held on 28 May 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 11 September 1998 (the "1998 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to reward and provide incentives to employees and other stakeholders for their contributions to the Group.

No share options have been granted under the 2002 Share Option Scheme.

Movements of the share options, which were granted under the 1998 Share Option Scheme, during the period are as follows:

Name or category of participant	Number of shares subject to options				Date of grant	Exercise price HK\$	Exercise period
	At 1 January 2003	Exercised during the period	Lapsed during the period	At 30 June 2003			
<i>Directors:</i>							
Lo Lin Shing, Simon	57,000,000	–	–	57,000,000	14.8.2000	0.284	15.8.2000 to 14.8.2003
	20,000,000	–	–	20,000,000	8.2.2002	0.150	9.2.2002 to 8.2.2008
Chan Ki	57,000,000	–	–	57,000,000	14.8.2000	0.284	15.8.2000 to 14.8.2003
Chan Wai Keung, Ringo	10,000,000	–	–	10,000,000	8.2.2002	0.150	9.2.2002 to 8.2.2008
Yu Ansheng, Ben	10,000,000	–	–	10,000,000	8.2.2002	0.150	9.2.2002 to 8.2.2008
<i>Employees</i>	5,900,000	–	600,000	5,300,000	8.2.2002	0.150	9.2.2002 to 8.2.2008
	<u>159,900,000</u>	<u>–</u>	<u>600,000</u>	<u>159,300,000</u>			

AUDIT COMMITTEE

The audit committee, which comprises the two independent non-executive directors of the Company, has reviewed the unaudited financial statements of the Group for the six months ended 30 June 2003.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The non-executive directors and independent non-executive directors of the Company are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2003.

By Order of the Board
Lo Lin Shing, Simon
Chairman

Hong Kong, 19 September 2003