



藍帆科技控股有限公司
LINEFAN TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2001



CONTENTS

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the directors (the “Directors”) of Linefan Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Zhu Zhaofa
Hung Kwok Wa
Tam Yiu Wing
Wang Limin

Non-executive directors

Yip Kim Po
Gao Xin Min

Independent non-executive directors

Yu Xiao Jun
Lee Kwan Ho, Vincent Marshall

COMPLIANCE OFFICER

Hung Kwok Wa

COMPANY SECRETARY

Lam Wai Keung *ACCA, AHKSA*

QUALIFIED ACCOUNTANT

Lam Wai Keung *ACCA, AHKSA*

AUDIT COMMITTEE

Yu Xiao Jun (*Chairman*)
Lee Kwan Ho, Vincent Marshall

SPONSOR

Shenyin Wanguo Capital (H.K.) Limited

JOINT AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Victor Ling, Tang & Partners
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2803, 28th Floor
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

HONG KONG SHARE REGISTRAR

Tengis Limited
4/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
Jian Sing Bank Limited

GEM STOCK CODE

8166

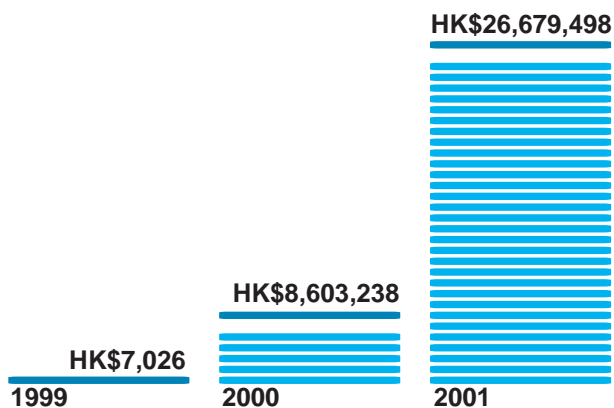
WEBSITE ADDRESS

www.linefan.com

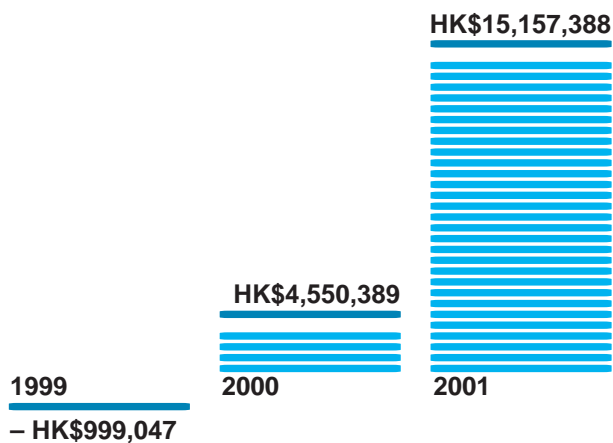


FINANCIAL HIGHLIGHTS

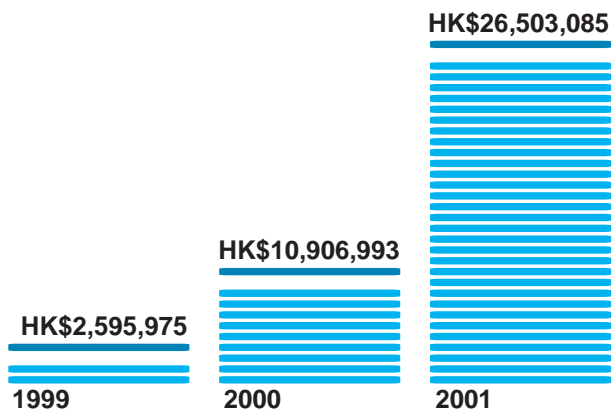
TURNOVER



PROFIT FOR THE YEAR



NET ASSETS





CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Directors") of Linefan Technology Holdings Limited ("Linefan Technology" or the "Company", together with its subsidiaries, the "Group"), I am delighted to present the first annual report of the Group since its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5th February, 2002.

For the year ended 31st December, 2001, the Group recorded a turnover of HK\$26.7 million, representing an increase of 210% over the previous year. Profit from operating activities registered a year-on-year increase from HK\$4.4 million in 2000 to HK\$15.9 million in 2001. Net profit attributable to shareholders for the year ended 31st December, 2001 soared 233% from HK\$4.6 million in 2000 to HK\$15.2 million in 2001. The Directors do not recommend the payment of a final dividend.



Internet usage has risen sharply since the early 90s. Information, which is now being circulated extensively, has become an important asset not restricted by time or geographical boundaries. Therefore, the successful conversion of information into valuable and useful assets has become fundamental to outstanding performance in the commercial community, giving rise to the concept of Knowledge Management ("KM"). KM is the systematic process of getting the right knowledge to the right people at the right time, creating an environment where information sharing is possible among users.

Foreseeing the potential in the information technology market and for KM applications software, we aim to thrive in this information environment, focus on the core technology of KM systems and to provide KM total solutions to satisfy the needs of the enterprises of different sizes and in different industries. Our expertise in KM consists of two main components: *non-structural knowledge integration systems and structural information integration and analysis systems*. In order to ensure that customers can acquire the needed information and knowledge easily, we have developed our existing KM systems such that they can perform on cross-platforms, cross-formats and cross-languages. The efficiency of our KM systems can be demonstrated by our successes achieved over the past years. Our systems enhance both external and internal communications; improve working efficiencies; streamline redundant or unnecessary processes in business operations; and strengthen organisational competitiveness.

With our well-defined development goals and business strategies, we aim to become a leader in developing KM technology and the provision of related network application services for our clients primarily in the People's Republic of China (the "PRC") and Hong Kong. To achieve this aim, the Group has devoted tremendous efforts in applying KM to corporate management and planning and in promoting customer competitiveness in the commercial community. With regard to technological development, not only have our experienced research and development professionals committed to developing more KM systems and related network application



CHAIRMAN'S STATEMENT

systems, but we have also provided professional technological advice to our customers. Our self-developed natural language processing technology and information search technology are among the best in the Greater China region.

We have established an extensive customer base, including leading commercial organisations, government entities, Internet Content Providers (ICPs) and/or Internet Service Providers (ISPs) in the PRC and/or overseas. Our well-established relationships with our customers foster full confidence in Linefan Technology and our technological know-how in the KM industry. In addition to the large corporations and government entities, we foresee the booming demand for KM total solutions from the thousands of small-to-medium enterprises in Hong Kong and the PRC, in view of the PRC's entry into the World Trade Organisation.

With the growing potential of the information technology market, we are enhancing the promotion of our network applications software, particularly the online KM system. The management of the Group strongly believes that by leveraging our technological know-how and the huge market potential in the KM total solutions, Linefan Technology will bring fruitful returns and profits to our investors.

Linefan Technology has grown with our customers, who have witnessed our many successes in the development of KM systems. In conclusion, I would like to take this opportunity to extend my sincere thanks to all our customers, technology providers, business partners, staff and shareholders for their supports and contributions to the Group during the past year.

Zhu Zhaofa
CHAIRMAN

Hong Kong, 22nd March, 2002



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. ZHU Zhaofa (朱召法), aged 37, is the executive Director and also is the chairman and founder of the Group. Mr. Zhu was appointed as Director on 4th December, 2000 and is responsible for the Group's overall strategic planning and development. Prior to joining the Group, he had worked as director and senior engineer of the Technical Department in the State Information Center of the PRC. He holds a bachelor degree in information engineering and electricity management system from Chengdu University of Science and Technology. He studied Computer-aided Design (CAD) at Yueki Language College of Nagasaki and TSD Corporation of Tokyo in Japan from 1988 to 1990.

Mr. HUNG Kwok Wa (洪國華), aged 33, is the executive Director and the compliance officer of the Company. Mr. Hung was appointed as Director on 4th December, 2000 and is responsible for strategic planning and business development of the Group. Prior to joining the Group, Mr. Hung has worked for several commercial banks in Hong Kong including Sanwa Bank, Credit Commercial De France and The Industrial Bank of Japan and KPMG Peat Marwick, an international certified public accountants firm and served as a director of a listed company in Hong Kong. Mr. Hung graduated from the University of Hong Kong with a bachelor degree in social sciences and is an associate member of the Association of Chartered Certified Accountants.

Mr. TAM Yiu Wing (談耀永), aged 43, is the executive Director. He is also the founder and managing director of the Group's subsidiary — Karson Consultants Limited. He joined the Group in December 2000 and was appointed as Director on 30th December, 2000 and is responsible for the overall management and development of the Group. Mr. Tam has over 18 years' experience in computer software research and development and project management. Prior to joining the Group and founding Karson Consultants Limited, he held a senior executive position in a number of computer engineering companies and governmental departments of Alberta, Canada. Mr. Tam holds a master degree in business administration from the University of Hong Kong, a master degree in Science (Computer Science) and a bachelor degree in Science (Mechanical Engineering) from the University of Alberta, Canada.

Ms. WANG Limin (王麗敏), aged 35, is the executive Director. She joined the Group in April 1999 and was appointed as Director on 15th September, 2001 and is responsible for project management. Prior to joining the Group, she had worked as the director of Information Center of Dalian Power Bureau and as a senior engineer in Dalian Power Bureau for 5 years. Ms. Wang holds a bachelor degree in information engineering from Chengdu University of Science and Technology.

Non-executive Directors

Mr. YIP Kim Po (葉劍波), aged 43, is the non-executive Director, the honorary chairman of the Group and was appointed as Director on 15th September, 2001. Mr. Yip is the chairman and co-founder of Ocean Grand Holdings Limited, in which he is responsible for the overall strategic planning and policy making. Mr. Yip holds a



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

master's degree in construction economics and management and is also named honorary professor at Harbin Construction University (哈爾濱建築大學) in the PRC. Mr. Yip is now serving as honorary president of Hong Kong Industrial Districts and Commerce Associations.

Mr. GAO Xin Min (高新民), aged 66, is the non-executive Director. He joined the Group in December 2000 and was appointed as Director on 30th December, 2000. Prior to joining the Group, Mr. Gao has worked as researcher, team leader, managing director in the Science Research Institute of Electric Power Industry for 19 years. Thereafter, he joined the Government as director of the department for science and technology in the State Energy Commission, the State Economic Commission, and the State Development and Planning Commission. In 1990, he was appointed as director general to the State Information Center and retired in 1999. After his retirement, Mr. Gao is still serving as standing vice chairman of the China Information Industry Association and as senior advisor of the State Information Center.

Independent non-executive Directors

Dr. YU Xiao Jun (于曉均), aged 46, holds a master degree and doctor of philosophy in physics from Queen's University, Canada. Dr. Yu was appointed as Director on 15th September, 2001. After his settling in Hong Kong, he worked for South-East Asia Shao Fu Development Company Limited as a director of project management. He also worked for Goldsense Technology Investment Limited as executive director. Dr. Yu has substantial experience in project management in the PRC and in high-tech industrial companies.

Mr. LEE, Kwan Ho, Vincent Marshall (李君豪), aged 46, is the managing director of the Tung Tai Group of Companies (securities and finance companies) and a non-executive director of the Hong Kong Exchanges and Clearing Limited, and a Vice Chairman of the Institute of Securities Dealers Limited. Mr. Lee was appointed as Director on 15th September, 2001. He has extensive experience in banking, corporate and real estate transactions in Hong Kong, China, the United States and Canada. While engaged as a senior banker with the HSBC group in Hong Kong and Vancouver, and as a certified public accountant with Coopers and Lybrand in Los Angeles and Boston, Mr. Lee executed a wide variety of investment transactions, including corporate acquisitions, financing, divestitures, real estate transactions, share offerings and commodities trading. He graduated Magna Cum Laude in accounting and finance from the University of Southern California and received a master degree in economics from the London School of Economics and Political Science and has received numerous academic awards and recognition. He has over 20 years of experience in securities and futures industry.

COMPLIANCE OFFICER

Mr. HUNG Kwok Wa (洪國華) assumes responsibility for acting as the Group's compliance officer, including advising on and assisting the board of directors of the Company in implementing procedures to ensure that the Group complies with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and other relevant laws and regulations applicable to the Group.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. XUE Wanjuan (薛萬娟), aged 36, is the director of 北京威派軟件技術有限公司 (Beijing Wellpay Software Technology Company Limited). As a senior engineer, she is responsible for the Group's research and development. Ms. Xue holds a bachelor degree in information engineering from Cheng Du University of Science and Technology. Prior to joining the Group, she held senior position in Beijing Power Supply Bureau responsible for the management of information system.

Mr. LI Chengcheng (李成成), aged 36, is the general manager of 北京藍帆科技有限公司 (Beijing Linefan Technology Company Limited) ("Beijing Linefan"). He joined the Group in October 2000 and is responsible for Beijing Linefan's overall management and business planning. Prior to joining the Group, he has worked in the Ministry of Land and Resources (the then Ministry of Geology and Mineral Resources) of the PRC and Giant Holdings in Australia. He holds a master degree in business administration from Curtin University of Technology, Western Australia and a bachelor degree in engineering from the School of Geo-Science Jilin University (previously called Changchun Institute of Geology). He is also a member of the Australia Institute of Management.

Mr. LAM Wai Keung (林偉強), aged 32, is the chief financial officer and the qualified accountant and the company secretary of the Company. Prior to joining the Group in November 2000, Mr. Lam has worked in several commercial banks including Banque Worms, Société Generale and The Industrial Bank of Japan and KPMG Peat Marwick, an international certified public accountants firm. Mr. Lam graduated from the University of Hong Kong with a bachelor degree in social sciences and obtained a master degree in international business management from the City University of Hong Kong. He is an associate member of the Association of Chartered Certified Accountants and The Hong Kong Society of Accountants.

Mr. AN Xilin (安西林), aged 47, is the general manager in operation of Beijing Linefan. He joined the Group in July 2000 and is responsible for Beijing Linefan's marketing and sales, operation and other duties. He graduated from Beijing Post & Communication University with major of micro-wave and satellite communication.



MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

For the year under review, the Group's turnover increased to approximately HK\$26.7 million as compared to approximately HK\$8.6 million in the previous year, representing an increase of 3.1 times. It was mainly attributable to the sales of the Group's KM products which amounted for approximately 91.02% of the Group's total turnover for the period. Non-structural knowledge integration systems, the flagship product line of the Group, accounted for approximately 76.62% of the Group's total turnover which including the newly launched products in the PRC, namely Linefan Information Discoverer, Linefan Cyberspace Information Agent, Linefan Web-based Email System, Linefan Bulletin Board System and Linefan Automatic Website Publishing System. All of these were all well received by the market and led to a substantial growth in the Group's total turnover. The Group's gross profit margin increased to approximately 93.76% as compared to approximately 88.50% in the previous year for the reason of economy of scale. This year was also the first year for the consolidation of the full year result from a Hong Kong subsidiary acquired in December 2000. Since the Group's Hong Kong subsidiary is principally specialised in the development, implementation and sale of structural information integration and analysis systems in Hong Kong, therefore, turnover from Structural information integration and analysis systems, KM related network application systems, and other system and software related services recorded a substantial increase and significantly contributed to the Group's total turnover for the period after the consolidation of the Hong Kong subsidiary's result into the Group.

The Group will continue to invest in research and development and expansion of market coverage according to the implementation plan as mentioned in the prospectus of the Company dated 28th January, 2002 (the "Prospectus").

The administrative expenses for the year under review amounted to about HK\$9.2 million whereas the administrative expenses for the previous year was about HK\$4.3 million. Administration expenses represented primarily directors' and staff remuneration and such increase for the year under review was mainly attributable to the employment of additional staff. During the year under review and the previous year, selling expenses amounted to approximately HK\$0.1 million and approximately HK\$3.0 million respectively, which were primarily comprised of advertising and promotional expenses, and traveling expenses.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders of the Company therefore increased, for the two years under comparison, from about HK\$4.6 million to approximately HK\$15.2 million while the net profit margin also increased from about 52.90% to approximately 56.82%.

For the year under review, the Group did not have any significant investments and material acquisitions and disposals of subsidiaries and affiliated companies, and there was no charge on the Group's assets. Save for the Group's business objectives as mentioned in the Prospectus, the Group does not have any future plans for material investments or capital expenditure as at the date of this report.

OUTLOOK

The Group emphasizes to become a leader in developing KM technology and the provision of related network application services in the PRC and Hong Kong. The Directors have formulated major business strategies and implementation plans to achieve this objective. Details of such business strategies and implementation plan can be found in the Prospectus.



REPORT OF THE DIRECTORS

The board of directors of Linefan Technology Holdings Limited is pleased to present their first annual report and the audited financial statements of the Company and its subsidiaries for the year ended 31st December, 2001.

REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of Cayman Islands on 30th November, 2000.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the Group upon completion of the Group Reorganisation on 24th January, 2002.

Details of the Group Reorganisation are set out in the Prospectus. Proforma financial statements of the Group, based on the group structure following the Group Reorganisation, are set out on pages 26 to 50 of this report.

The shares of the Company have been listed on GEM since 5th February, 2002.

PRINCIPAL ACTIVITY

The Company is an investment holding company. It did not trade in the period between its date of incorporation on 30th November, 2000 and the date of the Group Reorganisation. Particulars of the companies which became the Company’s subsidiaries on 24th January, 2002 are set out in note 30 to the proforma financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2001 are set out in the proforma consolidated income statement on page 26.

BUSINESS REVIEW

The Group is now in its third year of operation. The year marked a remarkable period of growth and expansion in the Group’s history. The Group was successfully listed on the GEM of the Stock Exchange through the issue of 220,000,000 new shares at HK\$0.24 per share, raising a total net proceeds of HK\$39.5 million. This significant move will help to enhance the profile of the “Linefan” brand and the popularity of Linefan Technology Holdings Limited in the KM industry.

The Group is principally engaged in the sale, development and implementation of KM systems and the provision of systems integration and information technology related services. The Group’s core KM products are divided into two main streams: *non-structural knowledge integration systems and structural information integration and analysis systems*. During the period under review, the Group launched two new non-structural knowledge integration systems products.



In the review period, profit from operating activities stood at HK\$15.9 million, increasing 257% against the corresponding period in the previous year. Net profit attributable to shareholders soared to HK\$15.2 million, in line with the profit estimate as stated in the Prospectus. This encouraging result was directly associated with the Group's commitment to expanding the marketing and distribution network, and enlarging market-share, which in turn has stimulated sales of "Linefan" KM applications software.

Over the years, the Group has established a solid customer base. Customers include leading commercial enterprises, government entities, major Internet Content Providers (ICPs) and/or Internet Service Providers (ISPs) in the PRC and/or overseas.

The Group is also committed to expanding its sales network to enhance Linefan Technology's presence and influence in the KM market.

PROSPECTS

Building on its outstanding performance, the Group will continue to provide related network applications services for clients in the PRC and Hong Kong. In addition, the Group will invest more resources in advancing its existing KM products and in developing more comprehensive products.

The economy is expected to growing in view of the PRC's accession into the World Trade Organisation. As such more and more overseas companies will flock into the PRC market, generating greater demand for KM solutions which are compliant with the local business environment, language and culture. Promising market potential will promote the growth and development of the software industry in the PRC.

The Group will continue to develop new KM systems and KM related network application systems. Linefan Knowledge Management Platform is expected to launch in the second quarter of 2002. The Group aims to strengthen the branding impact of "Linefan", ensuring that the "Linefan" brand name creates widespread customer recognition. To this end, the Group will cooperate with leading education institutes and information technology research centers to organise seminars, forums and conferences on knowledge management, enhancing the popularity of KM in the community.

Apart from promoting the "Linefan" brand, the Group will also expand its sales and distribution network to enlarge its market coverage in the PRC. To cope with the Group's growing business volume in the years ahead, Linefan Technology is planning to establish sales and support teams in major cities in the PRC and selected overseas markets, further strengthening the Group's leading position in the KM industry.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 12 to the proforma financial statements.



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 19.19% and approximately 37.60% of the Group's proforma turnover, respectively, and the largest and the five largest suppliers account for approximately 42.94% and approximately 90.09% of the Group's proforma cost of sales for the year ended 31st December, 2001, respectively. None of the directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) have any interest in the customers disclosed above.

SHARE CAPITAL

Details of changes in the authorised and issued share capital of the Company since its incorporation are set out in note 5 to the financial statement.

SHARE OPTION SCHEME

On 24th January, 2002, a share option scheme was approved pursuant a written resolution of the Company (the "Share Option Scheme").

The purpose of the Share Option Scheme is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The Board may, at its discretion, invite any full-time or part-time employee of the Company or any member of the Group, including any executive and non-executive directors, advisors, consultants of the Company or any subsidiary of the Company to take up options to subscribe for shares of the Company. The total number of shares of the Company available for issue under the Share Option Scheme is 92,909,000 shares representing 10% of the issued share capital as at the date of this report. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24th January, 2002.

No share options have been granted by the Company under the Share Option Scheme up to the date of this report.

**CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS**

Other than the share option scheme as set out above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2001 and there was no exercise of convertible securities, options, warrants or similar rights during the period.

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

Other than in connection with the Company's initial public offering on the GEM, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

As at 31st December, 2001, the Company had no reserve available for distribution to its shareholders.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**Executive Directors:**

Zhu Zhaofa	(appointed on 4th December, 2000)
Hung Kwok Wa	(appointed on 4th December, 2000)
Tam Yiu Wing	(appointed on 30th December, 2000)
Wang Limin	(appointed on 15th September 2001)

Non-executive Directors:

Yip Kim Po	(appointed on 15th September, 2001)
Gao Xin Min	(appointed on 30th December, 2000)

Independent Non-executive Directors

Yu Xiao Jun	(appointed on 15th September, 2001)
Lee Kwan Ho, Vincent Marshall	(appointed on 15th September, 2001)

In accordance with Article 87 of the Company's articles of association, Mr. Zhu Zhaofa, Mr. Hung Kwok Wa, Mr. Tam Yiu Wing, Ms. Wang Limin, Mr. Yip Kim Po, Mr. Gao Xin Min, Dr. Yu Xiao Jun and Mr. Lee Kwan Ho, Vincent Marshall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each of the Non-executive Directors and Independent Non-executive Directors is the period up to his retirement by rotation as required by the Company's articles of association.



REPORT OF THE DIRECTORS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of the companies which became its subsidiaries on 24th January, 2002 which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 17th September, 2001 (except for the service agreement of Mr. Tam Yiu Wing which commenced from 1st January, 2001) and which will continue thereafter until terminated by either party giving to the other not less than six months' advance written notice of termination.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses 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.

DIRECTORS' INTERESTS IN SHARES

At the date of this report, the interest of the Directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Interest in the Company

Name of director	No. of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Zhu Zhaofa	—	—	196,054,943*	—

* These shares are registered in the name of Capital Shares Group Limited. Zhu Zhaofa is the owner of 83.85% of the issued share capital of Capital Shares Group Limited. Under the SDI Ordinance, Zhu Zhaofa is deemed to be interest in all the shares registered in the name of Capital Shares Group Limited.



REPORT OF THE DIRECTORS

Interest in the associated corporations

Name of director	Name of associated corporation	No. of shares held			
		Personal interests	Family interests	Corporate interests	Other interests
Tam Yiu Wing	Affluent Resources Limited	450*	—	—	—
	Karson Consultants Limited	—	—	100 [#]	—

* These shares are registered in Mr. Tam's own name. The remaining 55% interest in Affluent Resources Limited is registered in the name of Chineseroad Incorporated.

[#] These shares are registered in the name of Affluent Resources Limited. Mr. Tam is the owner of 45% of the issued share capital of Affluent Resources Limited. Under the SDI Ordinance, Mr. Tam is deemed to be interest in all the shares registered in the name of Affluent Resources Limited. Since Karson Consultants Limited is a wholly-owned subsidiary of Affluent Resources Limited, Mr. Tam is also deemed to be interested in all the shares in Karson Consultants Limited registered in the name of Affluent Resources Limited.

Save as disclosed above, as at 5th February, 2002 none of the Directors of their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS

Details of the related party transactions during the year between companies which became the Company's subsidiaries on 24th January, 2002 and related parties are set out in note 29 to the proforma financial statements. Save as disclosed therein, there were no other transactions to be disclosed and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

Save as disclosed above, no contract of significance to which the Company or any of the companies which became its subsidiaries on 24th January, 2002 was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at 31st December, 2001 or at any time during the year ended 31st December, 2001.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in notes 7 and 8 to the proforma financial statements respectively.



REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

The Company became a listed company on 5th February, 2002. The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interest, being in 10% or more of the issued share capital of the Company as at 5th February, 2002:

Name	Number of Shares	Approximate percentage of holding
Capital Shares Group Limited (Note 1)	196,054,943	21.10%
Zhu Zhaofa (Note 2)	196,054,943	21.10%
Ocean Grand Technology Company Limited ("OGTCL") (Note 3)	168,830,952	18.17%
Ocean Grand Holdings Limited ("OGHL") (Notes 3 and 4)	168,830,952	18.17%

Notes:

1. Capital Shares Group Limited is beneficially-owned by Mr. Zhu Zhaofa and Ms. Xue Wanjuan (spouse of Mr. Zhu), as to 83.85% and 16.15% respectively.
2. The shares are registered in the name of Capital Shares Group Limited. Mr. Zhu is interested in 83.85% of the issued share capital of Capital Shares Group Limited and is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited under the SDI Ordinance.
3. OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the Main Board of the Stock Exchange.
4. The shares are registered in the name of OGTCL. OGHL is interested in the entire issued share capital of OGTCL and is deemed to be interested in all the shares registered in the name of OGTCL under the SDI Ordinance.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 5th February, 2002, neither the Sponsor, nor any of its respective directors, employees or associates (as referred to in note 3 to rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

Pursuant to the sponsor agreement dated 28th January, 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 5th February, 2002 to 31st December, 2004.

COMPETING INTERESTS

The Directors believe that none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group.



BENEFIT SCHEME

The Group's subsidiaries in the PRC including 北京藍帆科技有限公司 (Beijing Linefan Technology Company Limited), 北京航帆信息技術有限公司 (Beijing Hangfan Technology Company Limited) and 北京威派軟件技術有限公司 (Beijing Wellpay Software Technology Company Limited), in compliance with the applicable regulations of the PRC, participated in retirement benefits scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of employees who are registered permanent residents in the PRC. The Group's contribution for the year ended 31st December, 2000 and 2001 were based on 19% of the average wages of workers in Beijing, the city where the Group's PRC's staff are located and amounted to approximately HK\$21,960 and HK\$33,517 respectively.

The Group's Hong Kong office had no provident fund scheme for its staff in the past. The Group implemented a mandatory provident fund scheme in compliance with the applicable regulations in Hong Kong at the end of 2000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there is no restriction against such under the laws in the Cayman Islands.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since the listing of its shares on GEM on 5th February, 2002.

USE OF NET PROCEEDS FROM LISTING

The Company was successfully listed on the GEM of the Stock Exchange on 5th February, 2002 through a placement. The net proceeds from such placement after deduction of the relevant expenses incurred were approximately HK\$39.5 million. The Group intends to apply such net proceeds for the advancement of existing and new products, research and development of future products, sales and marketing activities, geographical expansion for distribution network and technical supporting, upgrading equipment and facilities and additional working capital. As of the date of this report, the Group has not spent any of the proceeds from the abovementioned share offer and such proceeds are placed on short-term deposits with a bank in Hong Kong. The Directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

AUDIT COMMITTEE

The Company established an audit committee on 31st July, 2001 with written terms of reference in compliance with rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee comprises Dr. Yu Xiao Jun and Mr. Lee Kwan Ho, Vincent Marshall, who are the Independent Non-executive Directors of the Company. The Group's financial statement for the year ended 31st December 2001 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.



REPORT OF THE DIRECTORS

One audit committee meeting was held since its establishment to the date of this report. The work undertaken by the audit committee was to review, in draft form, the Company's annual report and accounts and to provide advice and comments thereon to the Board.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 6 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu and Messrs. Victor Ling, Tang & Partners have acted as joint auditors of the Company since its incorporation on 30th November, 2000. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

Zhu Zhaofa
CHAIRMAN

Hong Kong, 22nd March, 2002



**Deloitte
Touche
Tohmatsu**

●●● 凌錦棠，滕嘉肇會計師事務所
●●○ VICTOR LING, TANG & PARTNERS
●●○ CERTIFIED PUBLIC ACCOUNTANTS
●●●

To the Members of
Linefan Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 23 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31st December, 2001 and of its result for the period from 30th November, 2000 (date of incorporation) to 31st December, 2001 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Victor Ling, Tang & Partner
Certified Public Accountants

Hong Kong, 22nd March, 2002



BALANCE SHEET

At 31st December, 2001

	Note	2001 HK\$
CASH BALANCE		0.10
SHARE CAPITAL	5	0.10

The financial statements on pages 20 to 23 were approved and authorised for issue by the Board of Directors on 22nd March, 2002 and are signed on its behalf by:

Zhu Zhaofa
Director

Hung Kwok Wa
Director



NOTES TO THE FINANCIAL STATEMENTS

For the period from 30th November, 2000 (Date of Incorporation) to 31st December, 2001

1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 30th November, 2000.

The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 5th February, 2002.

The Company did not trade during the period ended 31st December, 2001.

2. BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

3. RESULTS FOR THE PERIOD

The Company did not derive any income during the period. The expenses for the period which were necessary to maintain the Company, including auditors' remuneration of HK\$20,000 were borne by Chineseroad Incorporated which became the Company's subsidiary on 24th January, 2002.

4. TAXATION

No provision for taxation has been made in the financial statements as the Company had no income for the period.

5. SHARE CAPITAL

	Number of shares	Value HK\$
Authorised:		
On incorporation and at 31st December, 2001	3,500,000	350,000
Issued and fully paid:		
On incorporation	1	0.10
Issue of shares on 4th December, 2000	39,999	—
Issue of shares on 31st December, 2000	27,200	—
At 31st December, 2001	67,200	0.10



NOTES TO THE FINANCIAL STATEMENTS

For the period from 30th November, 2000 (Date of Incorporation) to 31st December, 2001

5. SHARE CAPITAL (continued)

The Company was incorporated on 30th November, 2000 with an authorised share capital of HK\$350,000 divided into 3,500,000 shares of HK\$0.10 each. On 4th December, 2000 one subscriber share of HK\$0.10 each were allotted and issued, credited as fully paid, to the initial subscribers to provide the initial share capital for the Company and such shares were then transferred to a sole shareholder.

On 4th December, 2000, 18,579, 16,000, 2,963, 2,000, 206, 206 and 45 shares of HK\$0.10 each were respectively allotted and issued, nil paid, to Capital Shares Group Limited, Ocean Grand Technology Company Limited (“OGTCL”), Accureach Developments Limited, Ms. Sun Haishan, Mr. Jiao Jinhong, Mr. Shen Sibao and Mr. Yao Jin representing 46.4500%, 40.0000%, 7.4075%, 5.0000%, 0.5150%, 0.5150% and 0.1125% respectively.

On 4th December, 2000, Mr. Jiao Jinhong, Mr. Shen Sibao and Mr. Yao Jin transferred their respective 206, 206 and 45 nil paid shares of HK\$0.10 each in the Company to Accureach Developments Limited at nil consideration.

On 31st December, 2000, the Company issued and allotted, nil paid, 3,200 shares of HK\$0.10 each to Ultra Active Enterprises Limited; 3,695 shares of HK\$0.10 each to Tradeweb Associates Limited; 3,900 shares of HK\$0.10 each to Cyber Challenger Limited; 6,300 shares of HK\$0.10 each to Impact Asia Enterprises Limited; 8,705 shares of HK\$0.10 each to Oak Field Developments Limited and 1,400 shares of HK\$0.10 each to Ms. Ong Zenaida M.

Changes in the share capital of the Company subsequent to 31st December, 2001 are set out in note 6.

6. POST BALANCE SHEET EVENTS

Pursuant to a meeting of the shareholders of the Company held on 24th January, 2002, inter-alia, the following resolutions were duly passed:

- (i) each share of HK\$0.10 each in the authorised share capital of the Company was subdivided into 10 shares of HK\$0.01 each;
- (ii) the authorised share capital of the Company was increased from HK\$350,000 to HK\$50,000,000 by the creation of an additional 4,965,000,000 shares of HK\$0.01 each;
- (iii) as a consideration for the acquisition by the Company of 67,200 shares of US\$1.00 each in the share capital of Chineseroad Incorporated, representing its entire issued share capital, the Directors were authorised to credit as fully paid up at premium of 672,000 shares already allotted and issued nil paid to (i) OGTCL for 160,000 shares, (ii) Capital Shares Group Limited for 185,800 shares, (iii) Accureach Developments Limited for 34,200 shares, (iv) Impact Asia Enterprises Limited for 63,000 shares, (v) Tradeweb Associates Limited for 36,950 shares, (vi) Ultra Active Enterprises Limited for 32,000 shares, (vii) Ms. Ong Zenaida M. for 14,000 shares, (viii) Oak Field Developments Limited for 87,050, shares, (ix) Cyber Challenger Limited for 39,000 shares and (x) Ms. Sun Haishan for 20,000 shares respectively;



NOTES TO THE FINANCIAL STATEMENTS

For the period from 30th November, 2000 (Date of Incorporation) to 31st December, 2001

6. POST BALANCE SHEET EVENTS (continued)

(iv) 708,418,000 shares were allotted and issued by way of Capitalisation Issue as follows:

<u>Shareholder</u>	<u>Number of shares issued by way of Capitalisation Issue</u>
Capital Shares Group Limited	195,869,143
OGTCL	168,670,952
Oak Field Developments Limited	91,767,540
Impact Asia Enterprises Limited	66,414,188
Cyber Challenger Limited	41,113,545
Tradeweb Associates Limited	38,952,448
Accureach Developments Limited	36,053,416
Ultra Active Enterprises Limited	33,734,190
Ms. Sun Haishan	21,083,869
Ms. Ong Zenaida M.	14,758,709
	<hr/> 708,418,000

Immediately following the completion of the Placing and the Capitalisation Issue, the authorised share capital of the Company will be HK\$50,000,000 divided into 5,000,000,000 shares and the issued share capital will be HK\$9,090,900 divided into 909,090,000 shares (each of which will be fully paid or credited as fully paid) and 4,090,910,000 shares will remain unissued.



REPORT OF THE AUDITORS

**Deloitte
Touche
Tohmatsu**

●●●● 凌錦棠，滕嘉肇會計師事務所
●●●● VICTOR LING, TANG & PARTNERS
●●●● CERTIFIED PUBLIC ACCOUNTANTS

To the Directors of
Linefan Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the proforma financial statements on pages 26 to 50 which have been prepared in accordance with the basis of preparation set out in note 1 to the proforma financial statements and with accounting policies set out in note 2 to the proforma financial statements which comply with accounting principles generally accepted in Hong Kong except that the effects of the Group Reorganisation entered into after the balance sheet date have been accounted for using merger accounting which is not in accordance with the requirements of Statement of Standard Accounting Practice No. 27 “Accounting for group reconstruction” (“SSAP 27”). Although the group reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that financial statements should not incorporate a combination which occurs after the date of the most recent balance sheet included in the financial statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company’s Directors are responsible for the preparation of the proforma financial statements on the basis of preparation set out in note 1 to the proforma financial statements which are properly prepared in accordance with the accounting policies set out in note 2 to the proforma financial statements. In preparing such proforma financial statements it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the proforma financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the proforma financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.



REPORT OF THE AUDITORS

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the proforma financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the proforma financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the proforma financial statements for the year ended 31st December, 2001 have been properly prepared in accordance the basis of preparation set out in note 1 to the proforma financial statements and with the accounting policies set out in note 2 to the proforma financial statements and the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Victor Ling, Tang & Partners
Certified Public Accountants

Hong Kong, 22nd March, 2002



PROFORMA CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2001

	Notes	2001		2000	
		Continuing operation HK\$	Discontinued operation HK\$	Continuing operation HK\$	Discontinued operation HK\$
Turnover	3	26,679,498	—	7,984,666	618,572
Cost of sales		(1,663,627)	—	(154,459)	(835,893)
Gross profit (loss)		25,015,871	—	7,830,207	(217,321)
Other income	5	169,001	—	243,153	3,841,452
Selling expenses		(126,806)	—	(456,884)	(2,495,199)
Administrative expenses		(9,173,106)	—	(3,376,875)	(919,641)
Profit from operations	6	15,884,960	—	4,239,601	209,291
Interest on bank overdrafts		(12,523)	—	—	—
Amortisation of goodwill		(461,965)	—	(158,183)	—
Share of results of an associate		—	—	(18,995)	—
Profit before taxation		15,410,472	—	4,062,423	209,291
Taxation	9	—	—	—	—
Profit before minority interests		15,410,472	—	4,062,423	209,291
Minority interests		(253,084)	—	278,675	—
Profit for the year		15,157,388	—	4,341,098	209,291
Dividend	10		Nil		Nil
Earnings per share (HK cents)	11		2.14		0.64

There were no recognised gains and losses other than the profit for the year.



PROFORMA CONSOLIDATED BALANCE SHEET

At 31st December, 2001

	Notes	2001 HK\$	2000 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	12	3,216,056	2,553,578
Goodwill	13	4,004,523	4,441,093
		7,220,579	6,994,671
CURRENT ASSETS			
Other investment	14	—	297,566
Trade receivables	15	9,614,858	1,018,412
Deposits and prepayments		17,223,515	6,055,499
Amounts due from related companies	16	—	495,984
Amounts due from shareholders	17	47,086	131,212
Cash and bank balances		2,176,528	1,481,909
		29,061,987	9,480,582
CURRENT LIABILITIES			
Bank overdraft		180,190	263,903
Trade payables	18	1,225,638	433,662
Other payable and accrued charges		2,912,769	623,264
Amounts due to directors	19	531,847	1,679,660
Amount due to a related company	19	—	960,371
Amounts due to shareholders	19	4,929,037	1,607,400
		9,779,481	5,568,260
NET CURRENT ASSETS			
		19,282,506	3,912,322
		26,503,085	10,906,993
CAPITAL AND RESERVES			
Share capital	20	520,800	520,800
Reserves	21	25,552,909	10,209,901
		26,073,709	10,730,701
MINORITY INTEREST			
		429,376	176,292
		26,503,085	10,906,993

The financial statements on pages 26 to 50 were approved and authorised for issue by the Board of Directors on 22nd March, 2002 and are signed on its behalf by:

Zhu Zhaofa
Director

Hung Kwok Wa
Director



PROFORMA CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2001

	Notes	2001 HK\$	2000 HK\$
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	23	57,890	(1,867,106)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		7,178	23,956
Interest paid		(12,523)	—
NET CASH (OUTFLOW) INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(5,345)	23,956
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,640,581)	(859,487)
Proceeds from disposal of property, plant and equipment		51,000	432,862
Proceed from disposal of other investment		390,000	—
Repayment from (advance to) related companies		495,984	(495,984)
Repayment from (advance to) shareholders		84,126	(131,212)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	24	—	(4,834,792)
Acquisition of additional interests in subsidiaries		—	(221,673)
Acquisition of other investment		—	(297,566)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(619,471)	(6,407,852)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		(566,926)	(8,251,002)
FINANCING	25		
Contributions from shareholders		—	3,185,297
(Repayment to) advances from directors		(1,147,813)	1,335,667
(Repayment to) advance from a related company		(960,371)	960,371
Advances from shareholders		3,321,637	1,607,400
NET CASH INFLOW FROM FINANCING		1,213,453	7,088,735
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		646,527	(1,162,267)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		131,805	(82,457)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,218,006	2,462,730
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,996,338	1,218,006
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,176,528	1,481,909
Bank overdraft		(180,190)	(263,903)
		1,996,338	1,218,006



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF PROFORMA FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 30th November, 2000.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”), the Company became the holding company of the group (the “Group”) formed after the completion of the Group Reorganisation on 24th January, 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 28th January, 2002 (the “Prospectus”).

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of Chineseroad Incorporated (“Chineseroad”).

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these proforma financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group. The Directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

The shares of the Company were listed on the GEM on 5th February, 2002.

The Group is engaged in the business of sales, development and implementation of structural information integration and analysis system, non-structural knowledge integration system, and knowledge management (“KM”) related network application system and technology.

The discontinued operation for the year ended 31st December, 2000 represents the operation of the Group’s internet content provider (“ICP”) business (including the operation of self-owned websites) in the People’s Republic of China (“PRC”). The operation of the ICP was sold during the year ended 31st December, 2000.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES

The proforma financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The proforma financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong except for the non compliance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstruction" ("SSAP 27") issued by the Hong Kong Society of Accountants described under basis of consolidation below. The principal accounting policies adopted are set out below:

Basis of consolidation

The proforma consolidated financial statements incorporate the financial statements of the Company and the companies which became the Company's subsidiaries on 24th January, 2002 made up to 31st December each year.

The proforma consolidated financial statements incorporate the effects of the Group Reorganisation completed on 24th January, 2002 (as described in note 1 above). For the purposes of the proforma presentation, the reorganisation has been accounted for by using merger accounting. This treatment is not in accordance with SSAP 27 because, although the Group Reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that financial statements should not incorporate a combination which occurs after the date of the most recent balance sheet included in the financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the proforma consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is capitalised and amortised on a straight-line basis over its useful economic life, not exceeding twenty years.

Revenue recognition

Service fees from software development and system application are derived from services for providing customers with software application and provision of technology. Service fees are recognised when services are provided.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Advertising revenues are derived from the sale of banner advertisements and sponsorship on the Group's websites. Advertising revenues are recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates of 20% per annum.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in securities

Other investments are measured at fair value, with unrealised gains and losses included in the net profit or loss for the period.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised in the financial statements as deferred taxation to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the proforma consolidated income statement.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The financial statements of overseas subsidiaries are translated at the prevailing rates at the balance sheet date. Exchange differences arising on consolidation are dealt with in the reserves.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other Standard.

Research and development expenditure

Expenditure on research and development is charged to the income statement in the period in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

No development costs have been deferred during the year.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

Retirement benefit schemes

The amount of the contribution payable in respect of the Group's defined contribution retirement schemes is charged to the income statement.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Company has a present legal or construction obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

3. TURNOVER

	2001		2000	
	Continuing operation HK\$	Discontinued operation HK\$	Continuing operation HK\$	Discontinued operation HK\$
KM Systems				
— Non-structural knowledge integration systems	20,442,056	—	7,668,640	—
— Structural information integration and analysis systems	3,841,928	—	266,355	—
KM related network application systems	955,614	—	21,573	—
Other system and software related services	1,439,900	—	28,098	—
Advertising revenue from websites	—	—	—	618,572
	26,679,498	—	7,984,666	618,572



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's continuing operation is regarded as a single segment, being an enterprise applications and technology provider related to knowledge management system. Segmental information between continuing and discontinued operations has been set out in the proforma consolidated income statement.

Geographical segments

The Group's continuing operation by geographical analysis as follows:

	External sales by geographical market		Segment results	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Geographical market:				
Hong Kong	5,648,996	—	562,408	—
PRC other than Hong Kong	21,030,502	7,984,666	15,322,552	4,239,601
	26,679,498	7,984,666	15,884,960	4,239,601
Interest on bank overdrafts			(12,523)	—
Amortisation of goodwill			(461,965)	(158,183)
Share of results of an associate			—	(18,995)
Profit before minority interests			15,410,472	4,062,423

The Group's discontinued operations for the year ended 31st December, 2000 was carried out principally in the PRC other than Hong Kong.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

	Hong Kong		PRC other than Hong Kong		Consolidated	
	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS						
Segment assets	2,959,109	1,242,460	29,318,934	10,791,700	32,278,043	12,034,160
Unallocated corporate assets					4,004,523	4,441,093
Consolidated total assets					36,282,566	16,475,253
LIABILITIES						
Segment liabilities	2,178,134	850,699	7,601,347	4,717,561	9,779,481	5,568,260
OTHER INFORMATION						
Amortisation of goodwill	271,073	—	190,892	158,183	461,965	158,183
Capital expenditure	7,004	—	1,633,577	967,051	1,640,581	967,051
Depreciation	110,820	—	744,580	624,401	855,400	624,401
Loss on disposal of property, plant and equipment	91,877	—	8,246	—	100,123	—

5. OTHER INCOME

Other income comprises:

	2001		2000	
	Continuing operation	Discontinued operation	Continuing operation	Discontinued operation
	HK\$	HK\$	HK\$	HK\$
Disposal of ICP operation	—	—	—	3,841,452
Exchange gain	20,317	—	—	—
Gain on disposal of other investment	92,434	—	—	—
Interest income	7,178	—	23,956	—
Management fee income	—	—	219,197	—
Sundry income	49,072	—	—	—
	169,001	—	243,153	3,841,452



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2001		2000	
	Continuing operation HK\$	Discontinued operation HK\$	Continuing operation HK\$	Discontinued operation HK\$
Directors' remuneration (note 7)				
— Fees	—	—	—	—
— Other emoluments	869,045	—	131,787	48,441
Retirement benefits scheme contributions	109,541	—	21,960	—
Other staff costs	3,404,525	—	577,625	871,199
Total staff costs	4,383,111	—	731,372	919,640
Auditors' remuneration	376,082	—	—	—
Depreciation	855,400	—	624,401	—
Loss on disposal of property, plant and equipment	100,123	—	—	—
Operating lease rentals in respect of land and buildings	1,350,185	—	957,706	—
Research and development	267,450	—	170,647	—



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

7. DIRECTORS REMUNERATION

	2001		2000	
	Continuing operation	Discontinued operation	Continuing operation	Discontinued operation
	HK\$	HK\$	HK\$	HK\$
Executive directors:				
Directors' fees				
Other emoluments	—	—	—	—
Salaries and other benefits	854,599	—	129,416	48,441
Contributions to retirement benefits pension schemes	14,446	—	2,371	—
Performance related incentive payments	—	—	—	—
Non-executive directors	—	—	—	—
Independent non-executive directors	—	—	—	—
Total emoluments	869,045	—	131,787	48,441
Details of emoluments by individuals are as follows:				
Director A	136,827	—	98,356	6,341
Director B	25,237	—	12,683	—
Director C	76,981	—	20,748	42,100
Director D	630,000	—	—	—
	869,045	—	131,787	48,441

The emoluments of each of the Directors were less than HK\$1,000,000 for each of the year ended 31st December, 2001 and 2000. No Directors waived any emoluments for both years.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

8. EMPLOYEE EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2000: two) was a Director of the Company whose emoluments are included in the above disclosure in note 7 above. The emoluments of the remaining four (2000: three) individuals were as follows:

	2001		2000	
	Continuing operation HK\$	Discontinued operation HK\$	Continuing operation HK\$	Discontinued operation HK\$
Employees				
— Basic salaries and allowances	1,248,929	—	20,701	118,942
— Retirement benefit scheme contributions	33,420	—	3,557	—
	1,282,349	—	24,258	118,942

The emoluments of each of the above employees were less than HK\$1,000,000 during each of the year ended 31st December, 2001 and 2000.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements since the Company's Hong Kong subsidiary has sufficient tax losses brought forward to set off against current year's assessable profit. No provision for income tax has been made as the PRC subsidiaries have no assessable income. In the opinion of the Directors, the Group is not subject to taxation in any other jurisdictions.

In accordance with the applicable enterprise income tax law of the PRC, one of the Group's operating subsidiaries in the PRC is entitled to exemption for income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years. In addition, one of the subsidiaries was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 1999, and is eligible to receive preferential treatment which entitle it to charge at the rate of 15%. Moreover, it is also entitled to a 50% relief on the income tax that would otherwise be charged for succeeding three years.

Details of the unprovided deferred taxation are set out in note 26.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

10. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation. In addition, no dividend has been paid by any of the companies comprising the Group during each of the year ended 31st December, 2001 and 2000.

11. EARNINGS PER SHARE

The calculation of the earnings per share for the year is based on the profit for the year of HK\$15,157,388 (2000: HK\$4,550,389) and on the 709,090,000 shares assumed to be in issue during the year, on the assumption that the Group Reorganisation and the subsequent capitalisation issue of the Company had been effective since 1st January, 2000.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Computers, network and related equipment HK\$	Total HK\$
COST				
At 1st January, 2001	598,729	662,641	3,040,404	4,301,774
Exchange adjustments	2,775	6,175	39,960	48,910
Additions	729,441	216,301	694,839	1,640,581
Disposals	(420,000)	(130,950)	(369,481)	(920,431)
At 31st December, 2001	910,945	754,167	3,405,722	5,070,834
DEPRECIATION				
At 1st January, 2001	236,809	260,979	1,250,408	1,748,196
Exchange adjustments	694	2,055	17,741	20,490
Provided for the year	135,495	113,669	606,236	855,400
Eliminated on disposals	(273,000)	(126,827)	(369,481)	(769,308)
At 31st December, 2001	99,998	249,876	1,504,904	1,854,778
NET BOOK VALUES				
At 31st December, 2001	810,947	504,291	1,900,818	3,216,056
At 31st December, 2000	361,920	401,662	1,789,996	2,553,578



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

13. GOODWILL

	HK\$
<hr/>	
COST	
At 1st January, 2001	4,604,701
Exchange adjustments	29,668
<hr/>	
At 31st December, 2001	4,634,369
<hr/>	
AMORTISATION	
At 1st January, 2001	163,608
Exchange adjustments	4,273
Provided for the year	461,965
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At 31st December, 2001	629,846
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NET BOOK VALUE	
At 31st December, 2001	4,004,523
<hr/>	
At 31st December, 2000	4,441,093
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The goodwill arose from the acquisition of subsidiaries and is amortised on a straight line basis over 10 years.

14. OTHER INVESTMENT

	2001	2000
	HK\$	HK\$
<hr/>		
Unlisted shares, at cost	—	297,566
<hr/>		

BESTeDEAL.com Incorporated ("Besteddeal") was incorporated in the United States of America and principally engaged in the business of operation of Super Search™ and application service provider services. On 1st July, 2000, the Group acquired a 10.15% interest in Besteddeal for HK\$297,566.

The Group disposed of its 10.15% interest in Besteddeal for US\$50,000 in July 2001 and no longer hold any interest of Besteddeal since then.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

15. TRADE RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	2001 HK\$	2000 HK\$
0–60 days	5,540,473	530,975
61–90 days	2,378,298	—
>90 days	1,696,087	487,437
	<u>9,614,858</u>	<u>1,018,412</u>

16. AMOUNTS DUE FROM RELATED COMPANIES

Pursuant to Section 161B of the Hong Kong Companies Ordinance, disclosures of amounts due from related companies are as follows:

Name of company:	北京海城東方科技有限公司 ("Oriental")	Ocean Grand Holdings Limited
Director connected:	Mr. Yip Kim Po	Mr. Yip Kim Po Mr. Hung Kwok Wa
Balance at 1st January, 2001:	<u>HK\$317,168</u>	<u>HK\$178,816</u>
Balance at 31st December, 2001:	<u>—</u>	<u>—</u>
Maximum balance during the year:	<u>HK\$317,168</u>	<u>HK\$178,816</u>

The amounts are unsecured, interest-free and repayable on demand.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

17. AMOUNTS DUE FROM SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable on demand.

18. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	2001 HK\$	2000 HK\$
0–60 days	775,341	111,511
61–90 days	128,146	—
>90 days	322,151	322,151
	<u>1,225,638</u>	<u>433,662</u>

19. AMOUNTS DUE TO DIRECTORS, A RELATED COMPANY AND SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable on demand.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

20. SHARE CAPITAL

For the purposes of the preparation of these proforma financial statements, the balance of the share capital and share premium shown in the proforma consolidated balance sheet at 31st December, 2001 and 31st December, 2000 respectively represents the issued capital and share premium of Chineseroad Incorporated, which was acquired by the Company pursuant to the Group Reorganisation.

	Number of shares	Value US\$
Authorised:		
Ordinary shares of US\$1 each		
At 20th March, 2000 (date of incorporation)	50,000	50,000
Increase during the period	50,000	50,000
<hr/>		
At 31st December, 2000 and 31st December, 2001	100,000	100,000
Issued and fully paid:		
Ordinary shares of US\$1 each		
At 20th March, 2000 (date of incorporation)	5,050	5,050
Increase during the period	62,150	62,150
<hr/>		
At 31st December, 2000 and 31st December, 2001	67,200	67,200
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Shown in the financial statements as		HK\$520,800

Details of the changes in the share capital for the period from 20th March, 2000 to 31st December, 2001 are as follow:

- (a) Chineseroad Incorporated was incorporated on 20th March, 2000 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 20th March, 2000, 5,050 shares were allotted and issued, for cash at par, to provide the initial capital to the company. On 29th December, 2000, the authorised share capital of the company was increased to US\$100,000 by the creation of an additional 50,000 shares with a nominal value of US\$1 each.
- (b) By written resolutions of the shareholders of the company dated 1st August, 2000 and 31st August, 2000, the company issued and allotted 62,150 new ordinary shares of US\$1 each to shareholders.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

21. RESERVES

	Share premium HK\$	Capital reserve HK\$	PRC statutory reserve HK\$	Exchange reserve HK\$	Accumulated profits HK\$	Total HK\$
At 1st January, 2000	—	784,906	—	(170,807)	(990,046)	(375,947)
Shareholders' contribution	—	3,185,297	—	—	—	3,185,297
Issue of new shares	2,809,908	—	—	—	—	2,809,908
Exchange adjustments	—	—	—	40,254	—	40,254
Profit for the year	—	—	—	—	4,550,389	4,550,389
At 31st December, 2000	2,809,908	3,970,203	—	(130,553)	3,560,343	10,209,901
Exchange adjustment	—	—	—	185,620	—	185,620
Profit for the year	—	—	—	—	15,157,388	15,157,388
Transfer to PRC statutory reserve	—	—	1,488,029	—	(1,488,029)	—
At 31st December, 2001	2,809,908	3,970,203	1,488,029	55,067	17,229,702	25,552,909

The capital reserve of the Group represents contributions from shareholders of the PRC subsidiaries.

PRC statutory reserve are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries.

22. SHARE OPTIONS

Pursuant to the employee share option scheme (the "Employee Share Option Scheme") of the Company adopted on 24th January, 2002 the Board of Directors may grant options to full-time or part-time employees of the Company or any member of the Group, including any executive and non-executive directors, advisors, consultants of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price which shall be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets on the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a share. An option may be exercised in accordance with the terms of the Employee Share Option Scheme at any time during a period commencing the date of grant of the option and ending 10 years after the date of grant of the option.

The maximum number of shares in respect of which options may be granted under the Employee Share Option Scheme (or under any other similar schemes) shall be such number which, in aggregate, does not exceed 10% of the shares in issue as at 5th February, 2002.

As at the date of this report, no option has been granted or agreed to be granted under the Employee Share Option Scheme.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2001	2000
	HK\$	HK\$
Profit before taxation	15,410,472	4,271,714
Share of results of an associate	—	18,995
Amortisation of goodwill	461,965	158,183
Depreciation	855,400	624,401
Interest expense	12,523	—
Interest income	(7,178)	(23,956)
Loss on disposal of property, plant and equipment	100,123	—
Gain on disposal of other investments	(92,434)	—
(Increase) decrease in trade receivables	(8,596,446)	319,944
Increase in deposits and prepayments	(11,168,016)	(5,739,892)
Increase (decrease) in trade payables	791,976	(2,119,759)
Increase in other payable and accrued charges	2,289,505	623,264
Net cash inflow (outflow) from operating activities	57,890	(1,867,106)



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

24. PURCHASE OF SUBSIDIARIES

	2001 HK\$	2000 HK\$
NET ASSETS ACQUIRED		
Property, plant and equipment	—	975,578
Trade and other receivables	—	995,488
Deposits and prepayment	—	308,257
Bank balances and cash	—	6,259
Trade and other payables	—	(442,572)
Amount due to director	—	(144,224)
Bank overdrafts	—	(263,903)
Minority interests	—	(276,029)
	—	1,158,854
Interest in an associate	—	(429,150)
Goodwill	—	3,847,444
	—	4,577,148
SATISFIED BY		
Cash	—	4,577,148
Net cash outflow arising on acquisition:		
	2001 HK\$	2000 HK\$
Cash consideration	—	4,577,148
Bank balances and cash acquired	—	(6,259)
Bank overdrafts acquired	—	263,903
Net outflow cash and cash equivalents in respect of the purchase of a subsidiary	—	4,834,792

The subsidiaries acquired during the year ended 31st December, 2000 did not contribute significantly to the Group's cash flow.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Amounts due to directors HK\$	Amount due to a related company HK\$	Amounts due to shareholders HK\$
At 1st January, 2000	343,993	—	—
Net cash inflow from financing	1,335,667	960,371	1,607,400
At 31st December, 2000	1,679,660	960,371	1,607,400
Net cash (outflow) inflow from financing	(1,147,813)	(960,371)	3,321,637
At 31st December, 2001	531,847	—	4,929,037

26. DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred taxation asset are as follows:

	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:		
Excess of depreciation over depreciation allowance	28,962	81,249
Taxation losses	9,529	103,682
	38,491	184,931

The amount of unprovided deferred taxation credit (charge) for the year is as follows:

	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:		
Excess of depreciation over depreciation allowance	(52,287)	81,249
Tax losses (utilised) arising	(94,153)	103,682
	(146,440)	184,931

The above deferred taxation asset is not recognised in the financial statements as its ultimate realisation in the foreseeable future is uncertain.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

27. OPERATING LEASE COMMITMENT

The Group as lessee

	2001	2000
	HK\$	HK\$

Minimum lease payments paid under operating leases during the period:

Office premises	1,565,867	957,706
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Note: Of the minimum lease payment, HK\$215,682 (2000: Nil) was accounted for in research and development expense.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2001	2000
	HK\$	HK\$
Within one year	950,063	1,378,967
In the second to fifth year inclusive	444,136	181,475
	1,394,199	1,560,442

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

28. RETIREMENT BENEFITS SCHEME

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of employees who are registered permanent residents in the PRC. The Group's contribution for the year ended 31st December, 2000 and 2001 were based on 19% of the average wages of workers in Beijing, the city where the Group's PRC's staff are located, and amounted to approximately HK\$21,960 and HK\$33,517 respectively

The Group's Hong Kong office had no provident fund scheme for its staff in the past. The Group implemented a mandatory provident fund scheme in compliance with the applicable regulations in Hong Kong at the end of 2000.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

29. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2000, the Group entered into related party transaction with Oriental. Oriental is a wholly owned subsidiary of Ocean Grand Technology Company Limited, a shareholder of the Company. The legal representative of Oriental is Mr. Yip Kim Po, who is also a director of the Company.

Beijing Linefan had provided administrative support services to Oriental during the year ended 31st December, 2000. The supportive services included the provision of office equipment and other administrative services. A management fee of HK\$219,197 was charged at cost to Oriental. There was no management fee charged to Oriental during the year ended 31st December, 2001 as Beijing Linefan did not render such supportive services to Oriental after 31st December, 2000.

Other than the balances with related parties, details of which as at 31st December, 2001 are set out in note 16, 17 and 19, there are no other related parties transactions.



NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31st December, 2001

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the companies comprising the Group as at 31st December, 2001 on the assumption that the Group reorganisation had been effective as of that date, are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Affluent Resources Limited	The British Virgin Islands ("BVI")	US\$1,000	100%	Investment holding
Beijing Hangfan Technology Company Limited*	PRC	RMB1,000,000	100%	Application software provider of non-structural knowledge integration systems and services
Beijing Linefan Technology Company Limited*	PRC	US\$500,000	100%	Sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology
Beijing Wellpay Software Technology Company Limited*	PRC	RMB500,000	100%	Research and development, and provision of KM related network application and services
Chineseroad Incorporated	BVI	US\$67,200	100%	Investment holding
Karson Consultants Limited	Hong Kong	HK\$1,466,002	55%	Sale, development and implementation of structural information integration and analysis system

Chineseroad Incorporated is held by the Company directly. All other subsidiaries are held by the Company indirectly.

None of the subsidiaries had issued any debt securities at the end of the year.

* Companies not audited by Messrs Deloitte Touche Tohmatsu and Messrs Victor Ling, Tang & Partners.



FINANCIAL SUMMARY

The following is a summary of the pro forma consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 of the proforma financial statements below:

RESULTS

	Year ended 31st December, 2001 HK\$	Year ended 31st December, 2000 HK\$	Period from 12th April, 1999 to 31st December, 1999 HK\$
Turnover	26,679,498	8,603,238	7,026
Cost of sales	(1,663,627)	(990,352)	(1,548)
Gross profit	25,015,871	7,612,886	5,478
Other income	169,001	4,084,605	2,005
Selling expenses	(126,806)	(2,952,083)	—
Administrative expenses	(9,173,106)	(4,296,516)	(442,021)
Profit (loss) from operations	15,884,960	4,448,892	(434,538)
Interest on bank overdrafts	(12,523)	—	—
Amortisation of goodwill	(461,965)	(158,183)	(5,425)
Share of results of an associate	—	(18,995)	(564,124)
Profit (loss) before taxation	15,410,472	4,271,714	(1,004,087)
Taxation	—	—	—
Profit (loss) before minority interests	15,410,472	4,271,714	(1,004,087)
Minority interests	(253,084)	278,675	14,040
Profit (loss) for the year/period	15,157,388	4,550,389	(990,047)



FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	31st December, 2001 HK\$	31st December, 2000 HK\$	31st December, 1999 HK\$
Non-Current Assets	7,220,579	6,994,671	2,436,514
Current Assets	29,061,987	9,480,582	2,470,079
Current Liabilities	9,779,481	5,568,260	2,310,618
Net Current Assets	19,282,506	3,912,322	159,461
Net Assets	26,503,085	10,906,993	2,595,975

Notes:

1. The summary of proforma consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure has been in existence throughout the financial years and is presented on the basis set out in note 1 to the proforma financial statements. The summary of the combined results of the Group for the period from 12th April, 1999 to 31st December, 1999 and the year ended 31st December, 2000 has been prepared for the financial statements of the companies now comprising the Group for the period from 12th April, 1999 to 31st December, 1999 and the year ended 31st December, 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The proforma consolidated results of the Group for the year ended 31st December, 2001 are set out on page 26 of the report.
2. The only published proforma consolidated balance sheet of the Group that have been prepared to date are those as at 31st December, 1999, 31st December, 2000 and 31st December, 2001. The proforma consolidated balance sheet as at 31st December, 1999 and 2000 have been extracted from the published financial information of the Company for the period from 12th April, 1999 to 31st December and the year ended 31st December, 2000 prepared for the purpose of the listing of the Company's share on the GEM. The proforma balance sheet as at 31st December, 2001 is as set out on page 27 of the report.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of members of Linefan Technology Holdings Limited (the “Company”) will be held at Mont Blanc Room, Level 5 One Pacific Place, 88 Queensway, Hong Kong on 26th April, 2002 (Friday) at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors (“Directors”) and auditors of the Company for the year ended 31st December, 2001;
2. To re-elect retiring directors and to authorise the board of Directors (“Board”) to fix the remuneration of the Directors;
3. To re-appoint auditors of the Company and to authorise the Board to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) of this resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares (the “Shares”) in the share capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:
 - (i) a rights issue (as defined below); or
 - (ii) any issue of Shares upon the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or
 - (iii) the exercise of any option under the share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or



NOTICE OF ANNUAL GENERAL MEETING

- (iv) any issue of Shares as scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time;

shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly;

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable laws of the Cayman Islands to be held; or
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“rights issue” means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

- 5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraphs (b) and (c) of this resolution, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase shares (the “Shares”) in the share capital of the Company or securities convertible into Shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognised Stock Exchange”), subject to and in accordance with all applicable laws of Cayman Islands and the requirements of the Rules



NOTICE OF ANNUAL GENERAL MEETING

Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of the Shares and securities convertible into Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the approval pursuant to paragraph (a) of this resolution be limited accordingly;
- (c) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable laws of the Cayman Islands to be held; or
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”

- 6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT** subject to the passing of the resolutions numbered 4 and 5 as set out in the notice (the “Notice”) convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with shares (“Shares”) in the share capital of the Company pursuant to the resolution numbered 4 as set out in the Notice be and the same is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased by the Company under the authority granted pursuant to the resolution numbered 5 as set out in the Notice provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution.”

By Order of the Board
Linefan Technology Holdings Limited
ZHU Zhaofa
Chairman

Hong Kong, 22nd March, 2002



NOTICE OF ANNUAL GENERAL MEETING

Head office and principal place of business

in Hong Kong:

Room 2803, 28th Floor
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrar of the Company, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting.
- (4) The register of members will be closed from 23rd to 26th April, 2002 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2002 annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration no later than 4:00 p.m. on 22nd April, 2002.
- (5) An explanatory statement containing further details regarding the proposed resolution no. 5 above will be sent to shareholders shortly together with the 2001 annual report.