



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

(Incorporated in the Cayman Islands with limited liability)

*2002 Interim Report*

\* for identification purpose only

## **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 risk 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.**

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The Stock Exchange takes no responsibility for the contents of this 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 report.

This 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 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, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and no misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**HIGHLIGHTS**

Turnover for the six months ended 30th June, 2002 was approximately HK\$22,384,000.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$3,584,000 for the quarter under review.

To retain cash flow for future development. The board of directors (the “Board”) of Linefan Technology Holdings Limited (the “Company”) does not recommend the payment of an interim dividend for the six months ended 30th June, 2002.



## HALF YEAR RESULTS

For the three months and six months ended 30th June, 2002.

The Board would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30th June, 2002 together with the comparative figures for the corresponding period in 2001 which have been reviewed by the auditors and the audit committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
Turnover	3	11,487	7,041	22,384	8,994
Cost of sales		(1,274)	(292)	(2,307)	(479)
Gross profit		10,213	6,749	20,077	8,515
Other income		61	23	138	23
Selling expenses		(175)	(31)	(290)	(68)
Administrative expenses		(6,635)	(2,005)	(11,765)	(3,680)
<b>Profit from operations</b>	5	<b>3,464</b>	4,736	<b>8,160</b>	4,790
Amortisation of goodwill		(116)	(115)	(232)	(231)
Interest on bank overdrafts		—	—	(7)	(7)
Share of results of an associate		(48)	—	(48)	—
<b>Profit before taxation</b>		<b>3,300</b>	4,621	<b>7,873</b>	4,552
Taxation	6	—	—	—	—
Profit before minority interests		3,300	4,621	7,873	4,552
Minority interests		284	(279)	514	(196)
<b>Profit for the period</b>		<b>3,584</b>	4,342	<b>8,387</b>	4,356
Dividend	7	—	—	—	—
Earnings per share					
— Basic ( <i>in HK cents</i> )	8	0.39	0.61	1.05	0.61

**CONDENSED CONSOLIDATED BALANCE SHEET**

		At 30th June, 2002 HK\$'000 (Unaudited)	At 31st December, 2001 HK\$'000 (Audited)
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		7,590	3,216
Interest in an associate		1,369	—
Goodwill		3,776	4,005
		<b>12,735</b>	7,221
<b>CURRENT ASSETS</b>			
Trade receivables	9	12,536	9,615
Other receivables, deposits and prepayments		21,950	17,223
Amounts due from shareholders		212	47
Cash and bank balances		32,132	2,177
		<b>66,830</b>	29,062
<b>CURRENT LIABILITIES</b>			
Bank overdraft		203	180
Trade payables	10	678	1,226
Other payables and accrued charges		2,773	2,913
Amounts due to directors		1,514	532
Amounts due to shareholders		—	4,929
		<b>5,168</b>	9,780
<b>NET CURRENT ASSETS</b>			
		<b>61,662</b>	19,282
		<b>74,397</b>	26,503
<b>CAPITAL AND RESERVES</b>			
Share capital	11	9,291	521
Reserves		63,110	25,553
		<b>72,401</b>	26,074
<b>MINORITY INTERESTS</b>			
		1,052	429
<b>NON-CURRENT LIABILITIES</b>			
Amount due to an associate		944	—
		<b>74,397</b>	26,503

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30th June, 2002

	Share capital	Share premium	Capital reserve	Contributed surplus	PRC statutory reserve	Exchange reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	521	2,810	3,970	—	—	(131)	3,561	10,731
Exchange adjustment	—	—	—	—	—	36	—	36
Profit for the period	—	—	—	—	—	—	4,356	4,356
At 30th June, 2001	521	2,810	3,970	—	—	(94)	7,916	15,123
Exchange adjustment	—	—	—	—	—	149	—	149
Profit for the period	—	—	—	—	—	—	10,802	10,802
Transfer to PRC statutory reserve	—	—	—	—	1,488	—	(1,488)	—
At 31st December, 2001	521	2,810	3,970	—	1,488	55	17,230	26,074
Arising from Group Reorganisation	(514)	(2,810)	—	3,324	—	—	—	—
Issue of new shares by way of capitalisation	7,084	(7,084)	—	—	—	—	—	—
Issue of shares under the placing	2,200	50,600	—	—	—	—	—	52,800
Share issue expenses	—	(15,077)	—	—	—	—	—	(15,077)
Exchange adjustment	—	—	—	—	—	217	—	217
Profit for the period	—	—	—	—	—	—	8,387	8,387
At 30th June, 2002	9,291	28,439	3,970	3,324	1,488	272	25,617	72,401

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

The contributed surplus of the Company arose from a Group reorganisation on 24th January, 2002. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of Chineseroad Incorporated.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (audited) (restated)
NET CASH FROM OPERATING ACTIVITIES	393	365
NET CASH USED IN INVESTING ACTIVITIES	(4,721)	(659)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	34,054	(821)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,726	(1,115)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,997	1,218
EFFECT OF EXCHANGE RATE CHANGES	206	32
CASH AND CASH EQUIVALENTS AT END OF PERIOD	31,929	135
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	32,132	421
Bank overdrafts	(203)	(286)
	31,929	135

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2002*

### 1. Group Reorganisation and Basis of Preparation of Condensed 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 resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these condensed consolidated financial statements of the Group for the three months and six months ended 30th June, 2002 have been prepared on the basis as if the Company had always been the holding company of the Group. The results of the Group for the three months and six months ended 30th June, 2001 has been prepared as if the Group Reorganisation had been effective since 1st January, 2001. 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 of the Stock Exchange on 5th February, 2002.

The financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) with Statement of Standard Accounting Practice No. 25 (“SSAP 25”) “Interim Financial Reporting”.

### 2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2001, except as described below.



In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants. The revised standards have introduced revised disclosure requirements which have been restated in order to achieve a consistent presentation.

*Cash flow statements*

In accordance with SSAP 15 (Revised) cash flows are classified under three headings: ‘cash flows from operating activities’, ‘cash flows from investing activities’, and ‘cash flows from financing activities’. Interest and dividends, which were previously presented under a separate heading, should be classified on a consistent basis under either operating, investing or financing activities. Cash flows arising from taxes on income would typically be classified as operating activities, unless they can be separately identified with investing or financing activities.

In addition, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3. Turnover

	Three months ended 30th June,		Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Knowledge Management (“KM”) Systems				
— Non-structural knowledge integration systems	8,608	4,202	15,593	6,072
— Structural information integration and analysis systems	688	2,069	1,612	1,690
KM related network application systems	90	690	1,525	836
Other system and software related services	2,101	80	3,654	396
	<b>11,487</b>	7,041	<b>22,384</b>	8,994

#### 4. Business and Geographical Segments

The Group's operation is regarded as a single segment, being an enterprise applications and technology provider related to knowledge management system.

##### *Geographical segments*

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

	For the three months ended 30th June,			
	External sales by		Segment results	
	geographical market			
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical market:				
Hong Kong	688	2,069	(1,058)	628
PRC other than Hong Kong	10,799	4,972	4,522	4,108
	<b>11,487</b>	<b>7,041</b>	<b>3,464</b>	<b>4,736</b>
Amortisation of goodwill			(116)	(115)
Share of results of an associate			(48)	—
Profit before minority interests			<b>3,300</b>	<b>4,621</b>

	For the six months ended 30th June,			
	External sales by		Segment results	
	geographical market			
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical market:				
Hong Kong	1,612	2,672	(1,570)	444
PRC other than Hong Kong	20,772	6,322	9,730	4,346
	<b>22,384</b>	<b>8,994</b>	<b>8,160</b>	<b>4,790</b>
Amortisation of goodwill			(232)	(231)
Interest on bank overdrafts			(7)	(7)
Share of results of an associate			(48)	—
Profit before minority interests			<b>7,873</b>	<b>4,552</b>

5. Profit From Operations

	Three months ended 30th June,		Six months ended 30th June,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Profit from operations has been  
arrived at after charging:

Total staff costs	<b>2,398</b>	942	<b>5,336</b>	1,815
Depreciation	<b>428</b>	267	<b>575</b>	504

6. 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.

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 subsidiary 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. The Group's PRC subsidiaries have either tax losses available or are exempt from income taxes as they are in their first two profitable years of operations.

7. 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 six months ended 30th June, 2002 and 2001.

## 8. Earnings Per Share

The calculation of the basic earnings per share for the three months and six months ended 30th June, 2002 is based on the respective unaudited consolidated profit for the period of about HK\$3,584,000 and HK\$8,387,000 respectively (2001: HK\$4,342,000 and HK\$4,356,000 respectively) and the weighted average number of approximately 929,090,000 and 795,792,144 (2001: 709,090,000 and 709,090,000) shares in issue during the three months and six months ended 30th June, 2002.

The weighted average number of 709,090,000 shares for the corresponding periods in 2001 is determined on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 200,000,000 shares of the Company had been effective since 1st January, 2001.

No diluted earnings per share has been presented for the three months and six months ended 30th June, 2002 as there was no diluting event in existence during such periods.

## 9. 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:

	<b>30th June, 2002 HK\$'000</b>	31st December, 2001 HK\$'000
0-60 days	<b>8,675</b>	5,541
61-90 days	<b>2,765</b>	2,378
> 90 days	<b>1,096</b>	1,696
	<b>12,536</b>	9,615

## 10. Trade Payables

The following is an aged analysis of trade payables:

	<b>30th June, 2002 HK\$'000</b>	31st December, 2001 HK\$'000
0-60 days	—	776
61-90 days	<b>12</b>	128
> 90 days	<b>666</b>	322
	<b>678</b>	1,226

## 11. Share Capital

	Number of shares	HK\$'000
<i>Authorised</i>		
At 1st January, 2001 and 31st December, 2001	3,500,000	350
Subdivided into 10 shares of HK\$0.01 each on 24th January, 2002	31,500,000	—
Increase in authorised share capital on 24th January, 2002	4,965,000,000	49,650
At 30th June, 2002	5,000,000,000	50,000
		HK\$'000
<i>Issued and fully paid</i>		
At 1st January, 2001 and 31st December, 2001	67,200	—
Subdivided into 10 shares of HK\$0.01 each on 24th January, 2002	604,800	—
	672,000	—
Credit as fully paid up on 24th January, 2002	—	7
Issue of shares by way of capitalisation	708,418,000	7,084
Issue of shares under the placing on 5th February, 2002	220,000,000	2,200
At 30th June, 2002	929,090,000	9,291

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 a premium of 672,000 shares already allotted and issued nil paid to (i) Ocean Grand Technology Holdings Limited (“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. (ii) 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 share respectively;
- (iv) conditional on the share premium account of the Company being credited as a result of the placing of the shares of the Company, HK\$7,084,180 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 708,418,000 shares for allotment and issued to the shareholders listed below:

<b>Shareholder</b>	<b>Number of shares issued by way of Capitalisation Issue</b>
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
	708,418,000

Immediately following the completion of the capitalisation issue, the authorised share capital of the Company was HK\$50,000,000 divided into 5,000,000,000 shares and the issued share capital was HK\$7,090,900 divided into 709,090,000 shares (each of which was fully paid or credited as fully paid) and 4,290,910,000 shares will remain unissued.

- (v) Pursuant to the listing on the GEM on 5th February, 2002, the Company issued 220,000,000 shares of HK\$0.01 each at HK\$0.24 per share to the public by way of the placing.

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

## 12. Lease Commitments

At 30th June, 2002, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:

	<b>30th June, 2002 HK\$'000</b>	31st December, 2001 HK\$'000
Within one year	<b>2,126</b>	203
In the second to fifth year inclusive	<b>849</b>	—
	<b>2,975</b>	203

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group continues to develop both knowledge acquisition technology and natural language processing technology in Knowledge Management (“KM”) systems.

During the period under review, the Group reported an unaudited turnover of approximately HK\$22,384,000 for the six months ended 30th June, 2002, representing an increase of 148.88% over the corresponding period in the previous year. Gross profit margin stood at the level of approximately 89.69%. It was attributable to the successful results of the Group’s KM products launched continuously starting mainly from the second quarter of the year 2001. The Group improved its knowledge acquisition technology and natural language processing technology applied in its KM systems, which enhanced the quality of its products and provided better coverages and effective total solutions to customers. The Group extended its market presence to Shanghai, Wuhan and Anhui by setting up companies there in addition to Beijing and Hong Kong to explore business opportunities spreading over the mainland China.

Administrative expenses for the six months under review increased to approximately HK\$11,765,000 from approximately HK\$3,680,000 for the corresponding period in the previous year. Such increase was mainly due to the additional of routine but mandatory expenses after the shares of the Company were listed on the GEM of the Stock Exchange in February 2002 and an increase in payroll.

Selling expenses for the six months under review increased to approximately HK\$290,000 from approximately HK\$68,000 for the corresponding period in the previous year, which were primarily comprised of advertising and promotional expenses, and travelling expenses supporting the increased turnover.

Due to net effect of the above, the net profit from ordinary activities attributable to shareholders for the six months under review increased to approximately HK\$8,387,000 from approximately HK\$4,356,000 for the same period in the previous year, while the net profit margins decreased to 37.47% from 48.43%.



## **Outlook**

The Group will continue to strengthen its research and development of knowledge acquisition technology and natural language processing technology. As such, the Group will continue to enhance its products and develops new KM systems and KM related network application systems. The Group will focus on development of KM total solutions. The Group targets to expand its market presence over the Mainland China to tap for growth in volume and better margins.

Given information technology is vital to the further economic development of the region, with the possible pick up of the global economy in 2003, the Group should have more opportunities for future growth. We remain confident in the performance of the coming quarters through the Group's continued research and development to develop new products and improve product qualities.

## **Liquidity and financial resources**

The Company was listed on the GEM of the Stock Exchange through a placement of 220,000,000 shares on 5th February, 2002. The net proceeds from the placement, after deductions for relevant expenses, was approximately HK\$39,000,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus. For the period under review, the Group financed its operations with its own working capital and an overdraft facility for a limit of HK\$200,000 extended by a bank to its subsidiary in Hong Kong. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

## **Employee information**

Currently, the Group has 28 employees working in Hong Kong and 103 employees in the PRC. The total of employee remuneration, including that of the directors and provident contributions, for the six months under review amounted to approximately HK\$2,398,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

## **Capital structure**

The shares of the Company were listed on the GEM of the Stock Exchange on 5th February, 2002. There has been no change in the capital structure of the Company since that date.

### **Significant investment**

For the six months ended 30th June, 2002, the Group had no significant investments.

### **Material acquisitions and disposals/future plans for material investments**

The Group had no material acquisitions or disposals during the six months ended 30th June, 2002. It has no plans for material investments or capital assets other than those set out in the Prospectus.

### **Segmental information**

Details have been set out in Note 4 “Business and Geographical Segments” under “Notes to the condensed financial statements”. During the period under review, the turnover generated from the PRC market accounted for approximately 92.80% for the Group’s total turnover. It was resulted from the Group’s efforts in market expansion spreading over the mainland and the increasing market demand in the Group’s KM products which improve the customers’ operating efficiency.

### **Charge on group assets and contingent liabilities**

There was no charge on the Group’s assets and no significant contingent liabilities as at 30th June, 2002.

### **Gearing ratio**

As at 30th June, 2002, the Group has cash and cash equivalents of approximately HK\$32,132,000 in its current assets while its current liabilities stood at approximately HK\$5,168,000. The Group has long-term debts amounted to approximately HK\$944,000 and has an outstanding bank overdraft balance of approximately HK\$203,000 as of 30th June, 2002 and its shareholders’ fund amounted to approximately HK\$72,401,000. In this regard, the Group had a net cash position and its gearing ratio should be 1.58% (short-term and long-term debts to shareholders’ funds) as of 30th June, 2002.

### **Exposure to fluctuations in exchange rates**

Sales and expenses of the Group are denominated either in Hong Kong dollars or Renminbi and the exchange rates of such currencies have been rather stable for the period under review. No hedging or other alternatives have been implemented.

**COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD**

**ACTIONS TO BE TAKEN**

**ACTUAL PROGRESS**

**Development of Products/Services**

*KM systems*

1. Non-structural knowledge integration systems
  - a Conduct internal lab test of LF e-Center 1.x Completed lab testing in March 2002. LF e-Center 2.0 beta is under development, which extends to identity verification systems, work flow management and customer base management
  - b Release LF ID 2.0 beta Under testing
  - c Upgrade the kernels of Search Engines Upgraded the knowledge acquisition technology to over 80% accuracy
  - d Release of LF CIA 2.0 Beta Started delivery to customers in June 2002
2. Structural information integration and analysis systems
  - a Continue to engage in system integration, consulting, software sales and training services Consistent with the Prospectus
  - b Continue development of ADMS Consistent with the Prospectus

*KM related network application systems*

- a Commence system design of LF e-Media Completed infrastructural design. Lab testing will be started in August 2002
- b Release LF Webpub 2.0 Started sales to customers in May 2002
- c Upgrade the Kernel of LF Webmail Upgraded the integration of email, information and on-line community services.

## ACTIONS TO BE TAKEN

## ACTUAL PROGRESS

### Geographical Expansion

#### *KM systems*

- |    |   |  |
|----|---|--|
| 1. | Non-structural knowledge integration systems and KM related network application systems   |  |
| a  | Focus the marketing and sales activities in Beijing and the surrounding regions           | Opened companies in Shanghai in April 2002, Anhui in June 2002 and Wuhan in June 2002 to extend the marketing and sales activities |
| 2. | Structural information integration and analysis systems                                   |  |
| a  | Establish a task force for overall project planning, development and resources deployment | Postponed to the third quarter of 2002   |
| b  | Explore the possibility of establishing workforces in Beijing and Shanghai                | Handled by companies in Beijing and Shanghai   |

### Sales, Marketing and Business Development

#### *KM systems*

- |    |   |   |
|----|---|---|
| 1. | Non-structural knowledge integration systems and KM related network application systems       |   |
| a  | Test the market response by focusing on finance, insurance, securities and government sectors | Started new businesses with several governmental authorities in the second quarter of 2002. Preliminary negotiation started with some companies in the finance and securities sectors in China. |
| b  | Press release and conferences   | Proceeded regularly and attended COMDEX/CHINA 2002 and Guangzhou IT Week  |
| c  | Organise seminars and forums about KM applications in the PRC to educate the market           | Regularly seminars and forums held in Beijing   |

**ACTIONS TO BE TAKEN**

**ACTUAL PROGRESS**

2. Structural information integration and analysis systems

- |   |   |   |
|---|---|---|
| a | Assess overall market size within the PRC | Postponed for the reasons of focusing in Hong Kong market |
| b | Focus on Beijing and Hong Kong            | Focusing in Hong Kong market                              |

**Enhancement of Research and Development Capabilities**

*KM systems*

1. Non-structural knowledge integration systems and KM related network application systems

- |   |  |                                |
|---|--|--------------------------------|
| a | Develop large scale document indexing technology                           | Preliminary framework designed |
| b | Improve globe-wise web-page information acquisition and storage technology | Continuing                     |
| c | Conform all web-based applications to the XML standard                     | Continuing                     |
| d | Develop Chinese language diagnostic vocabulary                             | Amending kernels               |

2. Structural information integration and analysis systems

- |   |                          |                                |
|---|--------------------------|--------------------------------|
| a | Continue the R&D on ADMS | Consistent with the Prospectus |
|---|--------------------------|--------------------------------|

*KM related network application systems*

- |   |   |                             |
|---|---|-----------------------------|
| a | Develop technology to handle inter-current queries with the LF BBS or LF Webmail system | Completed                   |
| b | Develop large scale group mail delivery technology                                      | Completed and under testing |

**USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD  
FROM 5TH FEBRUARY, 2002 TO 30TH JUNE, 2002**

The actual net proceeds from issuance of new shares in February 2002 was approximately HK\$39,000,000 as compared to the budgeted net proceeds of approximately HK\$35,000,000 in the Prospectus. The surplus of approximately HK\$4,000,000 will be utilized for general working capital purpose. Details of utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus are as follows:

	<b>Proposed total fundings required from net proceeds HK\$'million</b>	<b>Proposed fundings required during the period HK\$'million</b>	<b>Actual fundings spent during the period HK\$'million</b>
For products/service development for the advancement of the Group's existing KM products and the commencement of new products design	3.00	0.70	0.66
For enhancement of research and development capabilities for continuing the R&D of new KM systems and its related products for increasing the R&D professionals from 56 to 80	11.00	1.80	2.18
For sales, marketing and business development for increasing the sales and marketing professionals from 14 to 33 for organising joint seminars and conferences with business partners and organising other conferences, conventions and trade shows for developing the business relationship with local sales and distribution agents in Beijing, Shanghai, Guangzhou, Xian and Chongqing	9.80	1.70	1.61

	<b>Proposed total fundings required from net proceeds HK\$'million</b>	<b>Proposed fundings required during the period HK\$'million</b>	<b>Actual fundings spent during the period HK\$'million</b>
For geographical expansion for establishment of sales and distribution network and Shanghai, Hong Kong, Guangzhou, Zhejiang, Jiangsu, Chongqing, Xian and selected overseas market	5.20	0.90	0.88
For equipment and facilities for upgrading the Group's computer software, hardware and management information system	3.50	1.00	1.02
For general working capital of the Group	2.50		
	35.00	6.10	6.35

#### **COURT ORDERS**

On 28th June, 2002, the Company was served two ex parte injunctions obtained by a director of the Company in the Hong Kong Courts against the Company and several directors of the Company. At the return hearing on 12th July, 2002, the matters of these two ex parte injunctions were settled by the parties involved by a consent order. Details of the two ex parte injunctions and the consent order are set out in the Company's announcements dated 3rd July, 2002 and 15th July, 2002 respectively.

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN EQUITY OR DEBT SECURITIES

As at 30th June, 2002, the interests of the directors and chief executives of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### (1) Interest in the Company

Name of director	No. of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Zhu Zhaofa ( <i>note</i> )	—	—	196,054,943	—

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

### (2) Interest in the associated corporations

Name of director	No. of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Tam Yiu Wing	450*	—	—	—
Mr. Tam Yiu Wing	—	—	100 <sup>#</sup>	—

*Notes:*

\* *Name of associated corporation: Affluent Resources Limited*

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.



# Name of associated corporation: *Karson Consultants Limited*

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 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 30th June, 2002, none of the directors and chief executives of the Company or their associates had any personal, family, corporate or other interests in the shares of the Company or any 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' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES**

As at 30th June, 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive if the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the directors and chief executive of the Company or their respective associates, the register of substantial shareholders maintained under the Section 16(1) of the SDI Ordinance shows that as at 30th June, 2002, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name	Number of shares	Approximate percentage of shareholding
Capital Shares Group Limited ( <i>Note 1</i> )	196,054,943	21.10%
Mr. Zhu Zhaofa ( <i>Note 2</i> )	196,054,943	21.10%
Ocean Grand Technology Company Limited ("OGTCL") ( <i>Note 3</i> )	168,830,952	18.17%
Ocean Grand Holdings Limited ("OGHL") ( <i>Note 3 and 4</i> )	168,830,952	18.17%

*Notes:*

- 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.
- The shares are registered in the name of Capital Shares Group Limited. Mr. Zhu is interest in 83.85% of the issued share capital of Capital Share 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.
- OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the Main Board of the Stock Exchange.
- 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 interest in all the share registered in the name of OGTCL under the SDI Ordinance.

Other than the substantial shareholders' interests as at 30th June, 2002 disclosed above, Oak Field Developments Limited ("OFDL") became a substantial shareholder of the Company on 14th August, 2002 after acquiring 33,766,190 shares from Ultra Active Enterprises Limited. As at 14th August, 2002, OFDL holds 125,620,780 shares representing 13.52% of the Company's issued share capital. Mr. Ng Sui Kei is interested in the entire issued share capital of OFDL and is deemed to be interested in all the shares registered in the name of OFDL under the SDI Ordinance.

## **SHARE OPTION SCHEME**

Pursuant to a written resolution passed at the special general meeting of the Company on 24th January, 2002, the company conditionally adopted the share option scheme, the principal terms of which are set out in the section headed “Share Option Scheme” in appendix V to the Prospectus. Up to 30th June, 2002, no option has been granted by the Company pursuant to such share option scheme.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

The shares of the Company commenced trading on GEM on 5th February, 2002. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June, 2002.

## **SPONSOR’S INTERESTS**

As updated and notified by the Company’s sponsor, Shenyin Wanguo Capital (H.K.) Limited (the “Sponsor”), as at 30th June, 2002, neither of 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 member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

## **COMPETING INTERESTS**

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

## **BOARD PRACTICES AND PROCEDURES**

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.

## 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 currently comprises Dr. Yu Xiao Jun and Mr. Lee Kwan Ho, Vincent Marshall, who are the independent non-executive Directors of the Company.

By Order of the Board

**Zhu Zhaofa**

*Chairman*

Hong Kong, 19th August 2002

