



**L.P. LAMMAS INTERNATIONAL LIMITED**

**豐裕興業國際有限公司**

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

SPOT

EXCHANGE

OUT



Third Quarterly Report

**2002**

## 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 of the Stock Exchange 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 announcements 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.

*Pursuant to Chapter 36 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”), the Securities and Futures Commission regulates the Company in relation to the listing of its shares on the Stock Exchange. The Securities and Futures Commission 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 of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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 report misleading; and (3) 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.*

## FINANCIAL HIGHLIGHTS

	For the three months period ended	
	31 December 2002 HK\$	30 September 2002 HK\$
Turnover	<b>719,000</b>	418,000
Cost of sales	<b>(736,021)</b>	(730,505)
Gross loss	<b>(17,021)</b>	(312,505)
Net loss from ordinary activities attributable to shareholders	<b>(1,258,218)</b>	(1,743,920)

## FINANCIAL PERFORMANCE

For the three months under review, the Group's turnover was approximately HK\$719,000, representing an increase of 72% over the last quarter. As the cost of sales and administrative expenses did not increase in line with the turnover due to the success of the Group's cost control policy, the cost of sales for current period was constrained to approximately HK\$736,000. In this respect, the net loss attributable to shareholders was reduced by 28% to HK\$1,258,000.

On the other hand, the Group's turnover dropped by 49% if compared to the turnover of HK\$1,418,000 for the corresponding period in 2001. The decrease in turnover is mainly attributable to the continuous economic downturn in Hong Kong and the Group's business strategies to focus more in the PRC market. It is anticipated that the initial effect of the change of focus is the decrease in turnover in the Hong Kong segment. However, the Management believes that the Group will benefit from the enormous business opportunities in the PRC in the long run, and the Group's performance will gradually improve when the resources invested in the PRC market materialize. However, despite the reduced turnover, the cost of sales and administrative expenses were significantly reduced by 51% and 43% respectively. As a result, the net loss attributable to shareholders decreased by 40% as compared to the loss of HK\$2,082,000 in the corresponding period in 2001.

Although the turnover for the three months ended 31 December 2002 declined, the overall performance for the nine months ended 31 December 2002 improved as compared to the same period in 2001. For the nine months period under review, the Group achieved a turnover of approximately HK\$2,944,000 and recorded a gross profit of HK\$297,000, as compared to the turnover of HK\$2,416,000 and gross loss of HK\$1,779,000 for the corresponding period last year. Moreover, the net loss attributable to shareholder for the current nine months period reduced significantly by 43% to HK\$4,031,000 from HK\$7,065,000 for the same period last year.



## **BUSINESS REVIEW**

During the period under review, the Group had exerted efforts in strengthening its conventional business and in diversifying its services geographically by reaching out to the vast PRC market. The Group had particularly put its focus on enhancing its brand name, improving in-house workflow and operational structure, maintaining its current network of strategic partners as well as forming new alliances, and most importantly, bolstering the quality of the services offered and capturing more business opportunities and a larger market share. The following summarizes the Group's key achievements for the three months period ended 31 December 2002.

### **Enterprise Asset and Equity Market Place**

In August 2002 the Group commenced operation of a platform to facilitate the buying and selling of assets and equities of mainly PRC enterprises. This platform enables enterprises to register with us their intentions to seek potential investors or buyers of their assets and equities, whereby the Group will provide them customized services in accordance with their requirements. Since its commencement, the operation of the market place has been progressing smoothly. While the market place is currently under operation, the deal-making procedures and workflow are continuously under review and refinement to ensure the most suitable services are offered.

Press conferences, aiming to publicize the presence of the market place, were held during the period under review in several cities in the PRC, including Guangzhou, Chongqing and Chengdu to announce the functions and services of the market place and to address any queries or concerns from the perspective of the media. Since the press conferences, the market place has been approached by numerous enterprises in the PRC expressing their desire either to cooperate with us, or seek our services.

In order to increase the volume of business opportunities being channeled to the market place, it is currently co-operating with several financial institutions in the PRC for referrals of potential quality deals carefully selected among their extensive customer base who seek equity-financing opportunity. In addition, the market place is building up its referral network, where many individuals and institutions alike, including companies such as consulting firms and guarantee corporations, as well as window companies in Hong Kong of different provinces in the PRC, have sought to become our authorized referring representatives, with each of them responsible for a particular region in the PRC to direct us any potential business opportunities.

## **On-line Management System**

The On-Line Management System (“OLMS”), which is designed to assist in the management of transactions and facilitate internal workflow, is still under development and further refinement. The development of the system has now been carried forward to a new stage, where in addition to the existing 30,000-odd global enterprises that have been incorporated into the database, information on PRC enterprises is continuously being added to contribute to a more comprehensive database. At the same time, validation of old database records is constantly being carried out to ensure accurate and constructive business matching. The semi-finished system has been implemented and is currently under the trial and testing period.

Different modules are continuously being added to enhance the functionality of the system. Staff members are experimenting and familiarizing themselves with the system, where it is open for comments and suggestions for possible improvements. Recently, the Group is making plans to improve the communications and sharing of information between our headquarters in Hong Kong and our representative office in Beijing.

When fully developed, the system will be able to assist in business opportunities matching, manage and facilitate case progress, client records, and day-to-day operations of the Group, enhancing the internal communications between staff members, increasing efficiency of work of staff, and eliminating redundant allocation of resources. It also allows the management level of the Group to effectively monitor and assess the performance of its staff members.

## **Business Developments**

The Group continues to strive to offer professional, comprehensive, yet flexible services to SMEs in Hong Kong and in the PRC to suit their different needs in equity financing. To continue to strengthen the Group’s position as the region’s leading M&A advisory specialist, efforts are constantly exerted to seek new business opportunities, to extend our services to cover a broader spectrum of clients and to achieve improvements in the quality of services being offered to clients.

A number of M&A seminars were hosted by the Group on a regular basis. During the period under review, the Group has organized various M&A seminars, with some of them held independently and others held in conjunction with various organizations such as the Department of Trade and Industry, charity foundations, and many more. During this period, the Group was also invited by the Singapore Chamber of Commerce to give a talk on M&A to an intensive business tour organized by a university from Singapore, further substantiating our recognized position as a leading specialist in M&A advisory in the region.

The seminars were successfully held and well received by most SME owners. Some of the seminars were even covered by the media and thus managed to arouse the attention and interest of the general public about M&A as an investment opportunity and/or a tool for business expansion. The seminars also helped educate SME owners about application of equity financing to their businesses, increasing exposure of the Group, and channeling potential new clients.

## Cost Rationalization

Overall costs have been further reduced by the Group mainly due to the stringent cost control that is put into place, which has become a continued practice within the Group. Such measures have been able to lower operational costs, and thereby improving the Group's overall performance and providing a stronger foundation for future developments. Adjustments to the remuneration policy with regards to the management of the Group have been made, resulting in a more efficient use of financial resources. Lastly, the implementation of the On-line Management System, which has drastically increased the efficiency of the Group's day-to-day internal operations, has also contributed to the cost reduction of the Group.

## OUTLOOK

The current adverse economic environment in Hong Kong is mainly caused by the persistent global economic slump, which in turn suppresses local investment activities in the capital market and dampens investor sentiments. However, M&A activities in the PRC, on the other hand, have greatly increased in recent years, with the accession to the WTO as one of the most critical drivers behind the acceleration of this process.

The PRC's regulations towards M&A transactions is gradually becoming more transparent, both to accommodate the recent developments in the PRC's M&A market and to further stimulate foreign investment. The Group, seeing the change in these regulations and the opportunities they post, has extended its service coverage to capture the abundant opportunities in the PRC. As companies restructure to meet the challenges of WTO and increased competition, more of them are looking at M&A as a vehicle to finance their business development. On one hand, POEs are growing rapidly and striving to obtain the required capital and management skills to fuel their growth; while on the other hand, SOEs have long had a desperate need for restructuring and rejuvenation. Both stimulate domestic and foreign players to engage in M&A activities.

Moreover, riding on the fact that the PRC has posted strong recent foreign direct investment (FDI) growth and has come up first as the most attractive foreign direct investment destination, it is anticipated that more foreign investments would flood into the PRC using M&A as the tool, as statistics have shown that among the several modes of entry, M&A is the vehicle highly preferred by global investors to enter the PRC market.

With Hong Kong serving as a gateway for foreign investors to establish their presence in the PRC, the Group has positioned itself to bridge business sellers in the Greater China Region and potential investors worldwide to explore the possibility of co-operation through M&A. Through the established Enterprise Exchange Market Place, the Group will put to work its considerable strengths and pursue to increase its coverage in the PRC, thereby improving the overall performance of the Group.

## **LIQUIDITY, CHARGE ON GROUP ASSETS AND FINANCIAL RESOURCES**

As at 31 December 2002, the Group had HK\$5,729,926 cash on hand, which declined from HK\$10,161,855 as at 31 March 2002 primarily due to the current nine months period loss position. The Group does not have any borrowing except for a loan advance of 1,495,099 from an executive director. The Group had neither any outstanding secured borrowing nor created any mortgage or charge.

## **CONTINGENT LIABILITIES**

The Group had no material contingent liabilities as at 31 December 2002.

## **FOREIGN EXCHANGE EXPOSURE**

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. As at 31 December 2002, the Group had no significant exposures under foreign exchange contracts, interest or currency swaps or other financial derivatives.

## **EMPLOYEE INFORMATION**

As at 31 December 2002, the Group employed 18 full time staff. Staff costs, excluding directors' emoluments were HK\$2,232,781 for the nine months ended 31 December 2002 (2001: HK\$2,254,895). The Group's remuneration policy is basically determined by the performance of individual employees. Staff benefits, including medical coverage and mandatory provident funds are also provided to employees. The Group has also adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares in the Company.

## RESULTS

The Board of Directors (the “Board”) of L. P. Lammas International Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 31 December 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2002	2001	2002	2001
		HK\$	HK\$	HK\$	HK\$
		Unaudited	Unaudited	Unaudited	Unaudited
Turnover	2	<b>719,000</b>	1,417,619	<b>2,943,693</b>	2,415,619
Cost of services provided		<b>(736,021)</b>	(1,493,315)	<b>(2,646,932)</b>	(4,194,643)
Gross profit/(loss)		<b>(17,021)</b>	(75,696)	<b>296,761</b>	(1,779,024)
Other revenue		<b>13,950</b>	89,055	<b>311,473</b>	411,620
Administrative and general expenses		<b>(1,135,598)</b>	(2,006,098)	<b>(4,463,319)</b>	(5,600,435)
Other operating expenses		<b>(95,000)</b>	(86,500)	<b>(103,742)</b>	(92,117)
Loss from operating activities		<b>(1,233,669)</b>	(2,079,239)	<b>(3,958,827)</b>	(7,059,956)
Finance costs		<b>(24,549)</b>	(2,354)	<b>(71,706)</b>	(5,085)
Loss before tax		<b>(1,258,218)</b>	(2,081,593)	<b>(4,030,533)</b>	(7,065,041)
Tax	3	<b>0</b>	0	<b>0</b>	0
Net loss from ordinary activities attributable to shareholders		<b><u>(1,258,218)</u></b>	<u>(2,081,593)</u>	<b><u>(4,030,533)</u></b>	<u>(7,065,041)</u>
Loss per share					
– Basic	4	<b><u>HK(0.2 cents)</u></b>	HK(0.3 cents)	<b><u>HK(0.5 cents)</u></b>	HK(0.9 cents)
– Diluted	4	<b><u>N/A</u></b>	N/A	<b><u>N/A</u></b>	N/A



*Notes:*

## **1. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong and the accounting standards issued by The Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

## **2. TURNOVER**

Turnover represents the net invoiced value of services provided.

## **3. TAX**

Hong Kong profits tax has not been provided for the three months and nine months ended 31 December 2002 as the Group did not generate any assessable profits in Hong Kong during the period (2001: Nil). No provision for overseas income tax has been made for the three months and nine months ended 31 December 2002 and the corresponding periods in 2001 as the Group did not earn any assessable profits in other jurisdictions during these periods.

As at the balance sheet date, there were no significant deferred tax liabilities for which a recognition/provision has not been made (2001: Nil).

## **4. LOSS PER SHARE**

The calculation of basic loss per share for the three months and nine months ended 31 December 2002 is based on the respective net loss attributable to shareholders of HK\$1,258,218 and HK\$4,030,533 and the weighted average number of 800,000,000 ordinary shares of the Company in issue during the respective periods. The basic loss per share in respect of the three months and nine months ended 31 December 2001 is based on the respective net loss attributable to shareholders of HK\$2,081,593 and HK\$7,065,041 and the weighted average number of 800,000,000 ordinary shares of the Company in issue during the respective periods. Diluted loss per share for the three months and nine months ended 31 December 2002 and 2001 has not been shown as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for the periods.

## **5. RESERVES**

There were no movements in reserves of the Group, other than accumulated losses, for the three months and nine months ended 31 December 2002.

## **6. INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2002 (2001: Nil).

## 7. DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Number of issued ordinary shares held and nature of interests		Total
	Personal	Corporate	
Mr. Pong Wai Yan	4,000,000	632,400,000 <i>(Note)</i>	636,400,000
Mr. Kan Siu Lun	3,600,000	–	3,600,000

*Note:* These shares are held by WYP Holdings Limited, a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital in WYP Holdings Limited is registered in the name of and is beneficially owned by Mr. Pong Wai Yan.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## 8. DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share Option Scheme" in note 9, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## 9. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) of which the eligible participants include any employee (including any executive director) of the Company or any of its subsidiaries, who is in full time employment with the Company or any such subsidiary at the time when an option is granted to such employee. The Scheme will remain in force for a period of 10 years commencing on 29 November 2000.

The maximum number of shares in respect of which share options may be granted under the Scheme may not exceed, in nominal amount, 30% of the issued share capital of the Company. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 14,800,000, which represented approximately 1.85% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme.

The offer of a grant of share options, after the listing of the Company’s share on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), may be accepted within 21 days inclusive of, and from the date of the offer. The exercise period of the share options granted is determined by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

In respect of the share options to be granted after the listing of the Company’s shares on the GEM of the Stock Exchange, the subscription price will be a price determined by the directors, but may not be less than the highest of the closing price of the shares on the GEM on the date of grant of the particular option or the average of the closing prices of the shares on the GEM for the five trading days immediately preceding the date of the offer of grant of the particular option or the nominal value of a share.

In respect of the share options granted prior to the listing of the Company’s shares on the GEM of the Stock Exchange (the “Pre-IPO Share Options”), the subscription price of the Pre-IPO Share Options should not be less than the nominal value of a share.

The following Pre-IPO Share Options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	At 1 April 2002	Cancelled during the period	At 31 December 2002			
<b>Executive directors</b>						
Mr. Pong Wai Yan	1,400,000	-	1,400,000	29 November 2000	14 June 2001 to 13 June 2006	0.20
	1,400,000	-	1,400,000	29 November 2000	14 June 2002 to 13 June 2007	0.20
	1,000,000	-	1,000,000	29 November 2000	14 June 2002 to 13 June 2007	0.02
	1,400,000	-	1,400,000	29 November 2000	14 June 2003 to 13 June 2008	0.20
	1,400,000	-	1,400,000	29 November 2000	14 June 2003 to 13 June 2008	0.02
	<u>6,600,000</u>	<u>-</u>	<u>6,600,000</u>			
Mr. Kan Siu Lun	1,200,000	-	1,200,000	29 November 2000	14 June 2001 to 13 June 2006	0.20
	1,200,000	-	1,200,000	29 November 2000	14 June 2002 to 13 June 2007	0.20
	800,000	-	800,000	29 November 2000	14 June 2002 to 13 June 2007	0.02
	1,200,000	-	1,200,000	29 November 2000	14 June 2003 to 13 June 2008	0.20
	1,200,000	-	1,200,000	29 November 2000	14 June 2003 to 13 June 2008	0.02
	<u>5,600,000</u>	<u>-</u>	<u>5,600,000</u>			
Mr. Yu Yan Chun	400,000	-	400,000	29 November 2000	14 June 2001 to 13 June 2006	0.20
	400,000	-	400,000	29 November 2000	14 June 2002 to 13 June 2007	0.20
	<u>800,000</u>	<u>-</u>	<u>800,000</u>			
<b>Senior Management and other employees</b>						
In aggregate	1,400,000	(400,000)	1,000,000	29 November 2000	14 June 2001 to 13 June 2006	0.20
	800,000	-	800,000	29 November 2000	14 June 2002 to 13 June 2007	0.20
	<u>2,200,000</u>	<u>(400,000)</u>	<u>1,800,000</u>			

## 10. SUBSTANTIAL SHAREHOLDERS

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

Name	Number of shares held	Percentage of issued shares
WYP Holdings Limited ( <i>Note</i> )	632,400,000	79.05
Mr. Pong Wai Yan	636,400,000	79.55

*Note:* These shares are held by WYP Holdings Limited, the entire issued share capital of which is registered in the name of and is beneficially owned by Mr. Pong Wai Yan.

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

## 11. COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

## 12. SPONSOR'S INTEREST

As at 31 December 2002 and as at the date of this report, Tai Fook Capital Limited (the "Sponsor", its directors, employees or associates, did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to the agreement dated 4 December 2000 entered into between the Company and the Sponsor, the Sponsor received, and will receive fees for acting as the Company's retained sponsor for the period from 15 December 2000 to 31 March 2003.

## 13. AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 29 November 2000 with written terms of reference in compliance with the GEM Listing Rules for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises two members, Ms. Yu Yuk Ying, Vivian and Mr. Leung Wai Man, Raymond, who are independent non-executive Directors.

## 14. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

By order of the Board  
**L. P. Lammas International Limited**  
 Yu Yan Chun  
*Director*

Hong Kong, 27 January 2003