



藍帆科技控股有限公司
LINEFAN TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT **2002**

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This report, for which the directors of Linefan Technology Holdings Limited 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 for the purpose of giving information with regard to Linefan Technology Holdings Limited. The directors of Linefan Technology Holdings Limited, having made all reasonable enquiries, confirmed 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS**Executive directors**Zhu Zhaofa (*Chairman*)

Xu Wen Bo

Ma Gui Fang

Hung Kwok Wa

Non-executive directors

Gao Xin Min

Wang Limin

Independent non-executive directors

Chan, Peter Yat Tung

Hu Wei

COMPLIANCE OFFICER

Hung Kwok Wa

COMPANY SECRETARYLam Wai Keung *ACCA, AHKSA***QUALIFIED ACCOUNTANT**Lam Wai Keung *ACCA, AHKSA***AUDIT COMMITTEE**Chan, Peter Yat Tung (*Chairman*)

Hu Wei

SPONSOR

Shenyin Wanguo Capital (H.K.) Limited

AUDITORS

Deloitte Touche Tohmatsu

*Certified Public Accountants***HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

11th Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

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

Ground Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Jian Sing Bank Limited

GEM STOCK CODE

8166

WEBSITE ADDRESSwww.linefan.com

CHAIRMAN'S STATEMENT

For the year 2002, Linefan Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") insisted on its well-defined development goals and business strategies, aiming to become a leader in developing knowledge management ("KM") technology and the provision of related network application services (collectively "KM products") for our clients in China and Hong Kong.

We devoted tremendous efforts in research and development, technological advancement, and market expansion to position ourselves to compete for success in the years to come.



RESEARCH AND DEVELOPMENT

In addition to our experienced research and development team, we co-operated with other research centers in China to tap for the most effective way to speed up our research and development capacity. We strongly believed that this is the fundamental element to sustain business growth for a technological company.

TECHNOLOGICAL ADVANCEMENT

We gave full attention to the market changes and focused on the development and improvement of KM products having high market demands. We upgraded the kernels and versions of our products to enhance our points of reference to catch up with the market development.

MARKET EXPANSION

Besides Beijing and Hong Kong, we established sales and distribution network and technical support teams in Shanghai, Wuhan and Anhui to increase our market coverage for the mainland China.

During 2002, we had successfully implemented our flagship KM products in China and Hong Kong. 2002 is the year of e-Government in China, we demonstrated our leadership position by developing KM products in this area which we believed will be a good profit contributor in the coming years. We ranked 37th in IT 100 Enterprises in China e-Government Affairs 2002 and two of our KM products, LF i-Focus, and LF GNP (LF Government Network Portal), were awarded two of the best 200 e-Government solutions in China by China Internet Weekly, an IT magazine in China. We had well prepared ourselves in those business areas which we believed will provide fruitful returns such as another area in digital library in China.

I wish to take this opportunity to thank all my fellow directors for their valuable contributions. On behalf of the board of directors of the Company (the "Board"), I would also like to express my sincere gratitude to our shareholders, customers and business partners, as well as our staff for their ongoing support and dedication.

Zhu Zhaofa
Chairman

Hong Kong, 20 March 2003

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. ZHU Zhaofa (朱召法), aged 38, is the executive director of the Company and also is the chairman and founder of the Group. Mr. Zhu is responsible for the Group's business planning and development. Prior to joining the Group, he had worked as the director and senior engineer of the Technical Department in the State Information Center of China. 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. XU Wen Bo (徐文伯), aged 66, joined the Group in August 2002, and was appointed as the executive director of the Company in January 2003. Mr. Xu graduated from Beijing University, majored in laws. Prior to joining the group, Mr. Xu had worked in the Ministry of Defence and the Ministry of the Aerospace of China. In 1990, he was appointed as the Vice Minister of the Ministry of Culture of China until 1999. Mr. Xu was also the committee member of the Chinese People's Political Consultant Conference. Mr. Xu is now serving as the group leader of the China Digital Library Developing Strategy, the vice director of the China Internet Enlightening Engineer, the chairman of the China Cultural Network.

Ms. MA Gui Fang (馬桂芳), aged 38, was appointed as executive director of the Company in August 2002 and the vice president of the Group and the managing director of a subsidiary of the Group. She joined the Group in March 2002. Ms. Ma holds a bachelor degree in information engineering from ChengDu University of Science and Technology, and a master degree in business administration from Dalian University of Technology. Prior to joining the Group, Ms. Ma had worked in the HuaGuang Group, acted as the director of manufacture planning department, and worked in the Jade Bird HuaGuang Group, acted as the General Manager of Enterprise Management.

Mr. HUNG Kwok Wa (洪國華), aged 34, is the executive director and the compliance officer of the Company. Mr. Hung is responsible for business promotion of the Group. Prior to joining the Group, Mr. Hung had 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. Mr. Hung is also the director of another 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.

Non-executive Directors

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. WANG Limin (王麗敏), aged 36, previously was the executive director of the Company and was responsible for the project management. She was appointed as the non-executive director of the Company in October 2002. Prior to joining the Group, she had worked as the director of Information Center of Dalian Power Bureau and as the 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.

Independent non-executive Directors

Doctor CHAN, Peter Yat Tung (陳日東博士), aged 52, was appointed as the independent non-executive director and the chairman of the audit committee of the Company in November 2002. Doctor Chan holds a bachelor degree in science from the University of Miami, Florida, USA, and a doctor degree from the Loyola Law School, Los Angeles, USA. Mr. Chan had served in the Law Offices of Jeffery Winter (Lawyer), the University of International Business and Economics (Visiting Professor), the King & Wood Law Offices (Lawyers, Partner). Doctor Chan was also the member of the American Bar Association, the California Bar Association and the Phi Delta Phi member.

Mr. HU Wei (胡偉), aged 29, was appointed as the independent non-executive director and the member of the audit committee of the Company in August 2002 and October 2002 respectively. Mr. Hu holds a bachelor degree in economics from the FuDan University. Mr. Hu worked in the Core Pacific-Yamaichi Securities before 2000, and then joined the GC Capital (Asia), acted as manager and senior manager of Corporate Finance Division.

SENIOR MANAGEMENT

Mr. YAO Jin (姚進), aged 32, joined the Group in 2000, is the vice general manager of a subsidiary of the Group. Mr. Yao holds a bachelor degree in automobile designing from Yunnan Technology University. Mr. Yao is responsible for the project management. Prior to joining the Group, he had worked in the Beijing office of ShouLian Investment Company of the United States, acted as the project manager, and the BiyiBi network technology corporation, acted as the general manager.

Doctor CHENG Fang (成芳博士), aged 33, joined the Group in 1999, is the vice general manager of a subsidiary of the Group. Doctor Cheng holds a master degree in precision instrument engineering from the Tianjin University, and studied in Shanghai JiaoTong University for a doctor degree. Doctor Cheng is responsible for the technology planning, technology management and relationship on technological affairs. Prior to joining the Group, Doctor Cheng had worked in the State Information Center, acted as the department manager of the software development department of CEInet.

Ms. LIN Lin (林琳), aged 40, joined the Group in 2002, is the vice general manager of a subsidiary of the Group. Ms. Lin graduated from Beijing Technology University, majored in the electronic technology. Ms. Lin is responsible for sales and marketing. Prior to joining the Group, Ms. Lin had worked in the Great Wall Computer Company, the Beijing office of the ATI company of Canada, the Beijing office of the openfind of Taiwan, was responsible for exploring the market of the certain products.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WU Sheng (吳升), aged 40, joined the Group in 2002, is the general engineer of a subsidiary of the Group. Mr. Wu holds a master degree in computer science from Tsinghua University. Mr. Wu is responsible for the product and technology development. Prior to joining the Group, Mr. Wu had worked in the Research Center of Computer and Microelectronics Industrial Development ("CCID") of the Ministry of Electronics Industry of China, the CCID of the Ministry of Information Industry of China, the Beijing office of the openfind of Taiwan. Mr. Wu has extensive experience in chinese information procession, and had worked in several national key projects.

Doctor JIA Hong Yang (賈紅陽博士), aged 27, joined the Group in 2002, is the vice general engineer of a Beijing subsidiary of the Group. Mr. Jia holds a doctor degree in computing chemistry from the Chinese Academy of Sciences. Mr. Jia is responsible for the research and development of both non-structural and structural KM products. Prior to joining the Group, Mr. Jia had studied and worked in the Chinese Academy of Sciences. Mr. Jia has extensive experience in Chinese information procession and web based application system.

Doctor LI De Shi (李德識博士), aged 34, joined the Group in 2002, is the managing director of a subsidiary of the Group. Doctor Li holds a PhD degree in computer application technology from Wuhan University. Doctor Li is responsible for the whole work of the Wuhan subsidiary of the Group. Prior to joining the Group, Doctor Li is the professor of the Wuhan University. Doctor Li has extensive experience in computer application system.

Mr. LAM Wai Keung (林偉強), aged 33, 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 had worked in several commercial banks and a 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.

Ms. LIU Nian (劉念), aged 40, joined the Group in 1999, is the accounting manager of a subsidiary of the Group. Ms. Liu graduated from the RenMing University of China and majored in accounting. Ms. Liu is responsible for the Group's financial and accounting matters in China. Prior to joining the Group, she had worked for the Beijing KuaShiJi Cultural Office and the Beijing Film Institute.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP REORGANISATION

Pursuant to a group reorganisation 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 subsidiaries comprising the Group on 24 January 2002. Details of the Group's reorganisation are set out in the prospectus of the Company dated 28 January 2002 (the "Prospectus").

FINANCIAL REVIEW

During the year under review, the Group was principally engaged in the sales, development and implementation of KM technology and the provision of related network application services.

The Group recorded a turnover of approximately HK\$51,024,000 for the year ended 31 December 2002, a 91.2% increase from approximately HK\$26,680,000 in the previous year. The increase was mainly attributed to the successful results of the Group's KM products launched continuously starting mainly from the second quarter of the year 2001. Gross profit margin remained at the level of approximately 92.2%.

Administrative expenses for the year under review increased to approximately HK\$27,187,000 from approximately HK\$9,173,000 in the previous year. Such increase was mainly due to the addition of routine but mandatory expenses after the shares of the Company were listed on the GEM of The Stock Exchange in February 2002 and increases in payroll and research and development expenses. For cost reduction purposes, the Group exercised certain control measures to streamline its operations in Hong Kong, including relocation of seconded staff back to China, and disposed of a Hong Kong subsidiary and transferred its business functions to other subsidiaries of the Group in China for cheaper operating costs in long run.

Distribution costs for the year under review increased to approximately HK\$1,029,000 from approximately HK\$127,000 in the previous year, which were primarily comprised of product promotion expenses and traveling expenses supporting the increased turnover.

Due to the net effect of the above, the profit attributable to shareholders for year ended 31 December 2002 increased to approximately HK\$16,354,000 from approximately HK\$15,157,000 in the previous year, representing a growth of approximately 7.9%.

BUSINESS REVIEW

In pace with the implementation plans, the Group developed and enhanced its KM products particularly in knowledge acquisition technology and natural language processing technology and modified its KM products to suit different requirements in various business sectors. In addition to the core operating bases in Beijing and Hong Kong, the Group established sales and distribution network and technical support teams in Shanghai, Wuhan and Anhui and expanded its client base in other provinces of China.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The Group will continue to strengthen its research and development of KM technology. As such, the Group will continue to enhance its products and develop new KM systems and KM related network application systems. The Group will also focus on the development of KM total solutions and expand its product coverage to new emerging business areas such as e-Government and digital library in China. The Group targets to expand its market presence over the mainland China to tap for growth in volume and better margins.

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on the GEM of the Stock of Exchange through a placement of 220,000,000 shares on 5 February 2002. The net proceeds from the placement, after the deduction for relevant expenses, were approximately HK\$38,000,000. The Group applied these proceeds in the manner disclosed in the Prospectus. For the year under review, the Group financed its operations with its own working capital and an overdraft banking facility for a limit of HK\$200,000. 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.

SEGMENTAL INFORMATION

KM products were the core business segment of the Group, amongst, non-structural KM systems consisted of the largest portion of approximately 72.6% (2001: 76.6%). On the other hand, the Group's turnover mainly came from China, representing 96.4% of the total turnover (2001: 78.8%). Details have been set out in note 4 and 5 to the financial statements.

EMPLOYEES

As at 31 December 2002, the Group had 143 full time employees as compared to 104 full time employees at 31 December 2001.

The Group remunerates its employees mainly based on individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as the individual's contributions. Other benefits include retirement schemes.

The staff costs, including directors' remuneration, of the Group for the year ended 31 December 2002 totalled HK\$11,671,000 (2001: HK\$4,383,000), representing an increase of approximately 166.3%. The major reason was the increase in the number of qualified and experienced professionals.

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS

There was no significant investment during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group had no material acquisitions or disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets other than those set out in the Prospectus.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

There was no charge on the Group's assets and no significant contingent liabilities as at 31 December 2002.

GEARING RATIO

As at 31 December 2002, the Group had cash and cash equivalents of approximately HK\$30,847,000 in its current assets while its current liabilities stood at approximately HK\$4,757,000. The Group did not have any outstanding bank indebtedness as of 31 December 2002 and its shareholders' funds amounted to approximately HK\$80,293,000. In this regard, the Group had a net cash position and its gearing ratio was zero (net debt to shareholders' funds) as of 31 December 2002.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales, purchases and expenses of the Group are denominated either in Hong Kong dollars or Renminbi and the exchange rates of such currencies have been stable for the year under review. The Group's exposure to foreign exchange fluctuation is minimal. Therefore, no hedging or other alternatives have been implemented.

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS

The following is a summary of the implementation plans in comparison with the actual progress set out in the Prospectus.

**ACTIONS TO BE TAKEN FOR THE SIX
MONTHS ENDED 31 DECEMBER 2002
AS DISCLOSED IN THE PROSPECTUS**

ACTUAL PROGRESS

Development of Products/Services

KM systems

- | | | |
|----|--|---|
| 1. | Non-structural knowledge integration systems | |
| | a Release LF e-Center 1.x Standard | Released LF e-Center 1.5 and 2.0 |
| | b Release LF CIA 2.0 beta | Completed lab testing. Renamed "Global Information Monitoring System" |
| | c Upgrade Search Engine Robots | Upgraded Intelligence |
| | d Release an advanced version of search engine system | Incorporated value-added features |
| 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 Complete source-code development of ADMS | Under development |
| | c Development of user and technical manuals for ADMS | Under development |

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS

ACTIONS TO BE TAKEN FOR THE SIX MONTHS ENDED 31 DECEMBER 2002 AS DISCLOSED IN THE PROSPECTUS

ACTUAL PROGRESS

KM related network application systems

- | | | |
|---|--|---|
| a | Conduct lab test of LF e-Media | Under testing and focusing in the unification of information collection, processing and publicity |
| b | Commence system design of Identity Verification System | Consistent with the Prospectus |
| c | Upgrade the kernel of LF BBS | Postponed according to the market demand |
| d | Upgrade the kernel of LF Chat | Postponed according to the market demand |

Geographical Expansion

KM systems

1. Non-structural knowledge integration systems and KM related network application systems
 - a Establish sales and distribution network and technical support teams in Shanghai, Hong Kong and Guangzhou

Established companies in Shanghai, Anhui and Wuhan
--
2. Structural information integration and analysis systems
 - a Establish Beijing workforce:

– technical R&D team	Consistent with the Prospectus
– marketing team	Consistent with the Prospectus

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS

**ACTIONS TO BE TAKEN FOR THE SIX
MONTHS ENDED 31 DECEMBER 2002
AS DISCLOSED IN THE PROSPECTUS**

ACTUAL PROGRESS

Sales, Marketing and Business Development

KM systems

- | | | |
|----|---|--|
| 1. | Non-structural knowledge integration systems and KM related network application systems | |
| a | Promote the brand name of "Linefan" and the Group's public image | Proceeded regularly and attended COMDEX/CHINA 2002 and Guangzhou IT Week |
| b | Provide limited free trial LF e-Center systems to the selected key clients with the segment | Consistent with the Prospectus |
| c | Provide free training and consultant services | Regularly held in Beijing |
| d | Organise fee trial of the LF e-Media and Identity Verification System as a promotional strategy | Consistent with the Prospectus |
| 2. | Structural information integration and analysis systems | |
| a | Organise joint seminars with business partners for system integration and consulting services and sales of ADMS | Postponed |
| b | Arouse international brandname awareness through press conferences, conventions and trade shows | Proceeded regularly and attended COMDEX/CHINA 2002 and Guangzhou IT Week |
| c | Enlarge sales and marketing team | Consistent with the Prospectus |

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS

**ACTIONS TO BE TAKEN FOR THE SIX
MONTHS ENDED 31 DECEMBER 2002
AS DISCLOSED IN THE PROSPECTUS**

ACTUAL PROGRESS

Enhancement of Research and Development Capabilities

KM systems

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

- | | | |
|---|--|-------------------|
| a | Develop the network security technology to ensure the safety of client's information while enabling remote knowledge sharing | Under development |
| b | Develop the file system storage management technology | Under development |
| c | Develop the file system contents management technology | Under development |
| d | Develop auto abstraction and theme-pick up technology and Chinese information | Under development |

2. Structural information integration and analysis systems

- | | | |
|---|--|--------------------------------------|
| a | Complete the R&D on ADMS | Under development |
| b | Commence the research of application software for mobile computing devices | Postponed according to market demand |

KM related network application systems

- | | | |
|---|--|-----------------------------|
| a | Develop the synchronization technology of isomeric database | Completed and under testing |
| b | Develop advanced technology to integrate latest development in communication systems such as voice mail etc into the LF webmail system | Completed |

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

The actual net proceeds from the placement on 5 February 2002 was approximately HK\$38,000,000 as compared to the budgeted net proceeds of approximately HK\$35,000,000 in the Prospectus. The surplus of approximately HK\$3,000,000 will be utilized for general working capital purpose, details of utilization of fundings from the actual net proceeds versus that envisaged in the Prospectus during the period from 5 February 2002 to 31 December 2002 (the "Period") are as follows:

	Proposed total fundings required from net proceeds HK\$'million	Proposed fundings required during the Period HK\$'million	Actual fundings spent during the Period HK\$'million
For products/service development for the advancement of the Group's existing KM products and the commencement of new products design	3.00	1.4	1.4
For enhancement of research and development capabilities for continuing the R&D of new KM systems and systems and its related products for increasing the R&D professionals from 56 to 80	11.00	3.6	3.1
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	3.4	3.8
For geographical expansion for establishment of sales and distribution network and technical support teams in Beijing, Shanghai, Hong Kong, Guangzhou, Zhejiang, Jiangsu, Chongqing, Xian and selected overseas market	5.20	1.8	2.1
For equipment and facilities for upgrading the Group's computer software, hardware and management information system	3.50	1.5	1.8
For general working capital of the Group	2.50	—	—
	<u>35.00</u>	<u>11.7</u>	<u>12.2</u>

REPORT OF THE DIRECTORS

The directors of the Company are pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 30 November 2000. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group 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 companies now comprising the Group on 24 January 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 13 to the financial statements.

Pursuant to a placing, the shares of the Company were listed on the GEM of the Stock Exchange on 5 February 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the principal activities of the subsidiaries are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to the profit from operating activities by geographical area of operations for the year ended 31 December 2002 is set out in note 5.

RESULTS AND DIVIDENDS

The Group's consolidated profit for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 50.

No interim dividend was paid or declared in respect of the year ended 31 December 2002 (2001: Nil).

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2002 (2001: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last financial years is set out on pages 51 and 52 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital, together with the reasons thereof, and details of the Company's share option schemes are set out in notes 21 and 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Company are set out in note 22 to the financial statement and the consolidated statement of changes in equity of the Group on page 27.

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.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK\$51,830,000. This includes the Company's share premium account in the amount of HK\$28,408,000 at 31 December 2002, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 32% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 9% of the Group's total turnover.

Purchases from the Group's five largest suppliers of the Group accounted for approximately 40% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 22% of the Group's total purchases.

None of the directors of the Company, or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors

Zhu Zhaofa	
Xu Wen Bo	(appointed on 30 January 2003)
Hung Kwok Wa	
Ma Gui Fung	(appointed on 13 August 2002)
Tam Yiu Wing	(resigned on 16 October 2002)

Non-executive directors

Yip Kim Po	(resigned on 16 October 2002)
Gao Xin Min	
Wang Limin	(changed appointment from executive director on 17 October 2002)

Independent non-executive directors

Chan, Peter Yat-tung	(appointed on 4 November 2002)
Hu Wei	(appointed on 13 August 2002)
Yu Xiao Jun	(resigned on 16 October 2002)
Lee Kwan Ho, Vincent Marshall	(resigned on 16 October 2002)

In accordance with articles 87(2) of the Company's articles of association, Mr. Hung Kwok Wa will retire by rotation and will not offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Xu Wen Bo and Doctor Chan, Peter Yat-tung 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.

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 financial statements, respectively.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial terms of three years commencing from 17 September 2001 (except for the service agreements of Mr. Tam Yiu Wing and Ms. Ma Gui Fang which commenced from 1 January 2001 and 13 August 2002 respectively) and which will continue thereafter until terminated by either party giving to the other not less than six months' advance written notice of termination.

Apart from the foregoing, no director has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment other than statutory compensation.

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

As at 31 December 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:

Interest in the Company

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

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

Save as disclosed above, as at 31 December 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

At no time during the year was the Company or any of its subsidiaries 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 of 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 during the year.

REPORT OF THE DIRECTORS

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 31 December 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 shareholdings
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>Notes 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 interested 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 interested in all the share registered in the name of OGTCL under SDI Ordinance.

SHARE OPTION SCHEME

On 24 January 2002, a share option scheme was approved pursuant to the written resolutions of the then shareholders 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 adoption of the Share Option Scheme. 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

REPORT OF THE DIRECTORS

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 24 January 2002.

Details of the options granted since the adoption of the Share Option Scheme, options in respect of a total of 92,900,000 shares were granted which were all made to various employees during the year under review and the options outstanding as at 31 December 2002 were as follows:

	Date of grant	No. of options granted	Exercise price	Exercisable period	No. of options held as at 24 January 2002	No. of options exercised during the year	No. of options lapsed during the year	No. of options held as at 31 December 2002
Selected Employees (In aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002-14/11/2005	-	-	-	92,900,000

The closing price of the shares of the Company on 14 November 2002 immediately before the date on which the options were granted was HK\$0.181.

No directors of the Company were being granted the options pursuant to the Share Option Scheme. As the 10% general limit on the grant of options of the Share Option Scheme is almost fully utilized, the directors of the Company will propose to shareholders at the forthcoming annual general meeting to refresh the 10% general limit, so that the total number of shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option schemes of the Company shall be re-set at 10% of the shares of the Company in issue as at the date of approval of the "refreshed" limit. Additional information is contained in the circular accompanying the 2002 annual report.

The directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

REPORT OF THE DIRECTORS

BENEFIT 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 31 December 2002 were based on 19%, 30% and 12.5% (2001: 19%), respectively, of the average wages of workers in Beijing, Wuhan and Shanghai (2001: Beijing), the cities where the Group's PRC's staff are located and amounted to approximately HK\$34,000 (2001: HK\$55,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund scheme in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31 December 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 28 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 5 February 2002 to 31 December 2004.

CONNECTED AND RELATED PARTY TRANSACTIONS

There were no transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the GEM on 5 February 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 31 December 2002.

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance, to which the Company or its subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at end of the year or at any time during the year.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or 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 interests with the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rule since the listing of the Company's shares on the GEM on 5 February 2001.

REPORT OF THE DIRECTORS

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

AUDIT COMMITTEE

The Company established an audit committee on 31 July 2001 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently comprises Doctor Chan, Peter Yat Tung and Mr. Hu Wei, who are the independent non-executive directors of the Company. In the course of the supervision of the financial reporting process and internal control system of the Group, four meetings were held during the year ended 31 December 2002 to review the operations. The Group's audited results for the year ended 31 December 2002 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By Order of the Board

Zhu Zhaofa
Chairman

Hong Kong, 20 March 2003

REPORT OF THE AUDITORS

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF LINEFAN TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 50 which have been prepared in accordance with accounting policies 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 circumstances of the Company and the Group, 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 affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20 March 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	4	51,024	26,680
Cost of sales		(3,958)	(1,664)
Gross profit		47,066	25,016
Other operating income		239	169
Distribution costs		(1,029)	(127)
Administrative expenses		(27,187)	(9,173)
Amortisation of goodwill		(428)	(462)
Profit from operations	6	18,661	15,423
Interest on bank overdrafts		(7)	(13)
Share of results of associates		(477)	–
Loss on disposal of subsidiaries		(2,199)	–
Profit before taxation		15,978	15,410
Taxation	9	(414)	–
Profit before minority interests		15,564	15,410
Minority interests		790	(253)
Profit for the year		16,354	15,157
Dividend	10	–	–
Earnings per share	11		
Basic (HK cents)		1.91	2.14
Diluted (HK cents)		1.91	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	7,186	3,216
Investments in associates	14	6,123	–
Goodwill	15	4,327	4,005
		<u>17,636</u>	<u>7,221</u>
CURRENT ASSETS			
Inventories	16	4,081	–
Trade receivables	17	17,977	9,615
Other receivables, deposits and prepayments		13,060	17,224
Amount due from an associate	18	1,885	–
Amounts due from shareholders	19	–	47
Cash and bank balances		30,847	2,176
		<u>67,850</u>	<u>29,062</u>
CURRENT LIABILITIES			
Trade payables	20	–	1,226
Other payables and accrued charges		4,343	2,913
Tax payable		414	–
Amounts due to directors	19	–	532
Amounts due to shareholders	19	–	4,929
Bank overdraft		–	180
		<u>4,757</u>	<u>9,780</u>
NET CURRENT ASSETS			
		<u>63,093</u>	<u>19,282</u>
		<u>80,729</u>	<u>26,503</u>
CAPITAL AND RESERVES			
Share capital	21	9,291	521
Reserves		71,002	25,553
		<u>80,293</u>	<u>26,074</u>
MINORITY INTEREST			
		<u>436</u>	<u>429</u>
		<u>80,729</u>	<u>26,503</u>

The financial statements on pages 24 to 50 were approved and authorised for issue by the Board of Directors on 20 March 2003 and are signed on its behalf by:

Zhu Zhaofa
DIRECTOR

Ma Gui Fang
DIRECTOR

BALANCE SHEET

At 31 December 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NON-CURRENT ASSET			
Investments in subsidiaries	13	<u>30,074</u>	—
CURRENT ASSETS			
Amounts due from subsidiaries	18	31,729	—
Bank balance		<u>96</u>	—
		31,825	—
CURRENT LIABILITIES			
Accrued charges		<u>778</u>	—
NET CURRENT ASSETS			
		<u>31,047</u>	—
		<u>61,121</u>	—
CAPITAL AND RESERVES			
Share capital	21	9,291	—
Reserves	22	<u>51,830</u>	—
		<u>61,121</u>	—

Zhu Zhaofa
DIRECTOR

Ma Gui Fang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2002

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (note 22)	Special reserve HK\$'000 (note 22)	PRC statutory reserve HK\$'000 (note 22)	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2001	521	2,810	3,970	-	-	(131)	3,561	10,731
Exchange adjustment (not recognised in income statement)	-	-	-	-	-	186	-	186
Profit for the year	-	-	-	-	-	-	15,157	15,157
Transfer to PRC statutory reserve	-	-	-	-	1,488	-	(1,488)	-
At 31 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	-	(15,108)	-	-	-	-	-	(15,108)
Exchange adjustment (not recognised in income statement)	-	-	-	-	-	173	-	173
Profit for the year	-	-	-	-	-	-	16,354	16,354
Transfer to PRC statutory reserve	-	-	-	-	10,135	-	(10,135)	-
At 31 December 2002	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operations		18,661	15,423
Adjustments for:			
Amortisation of goodwill		428	462
Bad debt allowance		155	–
Depreciation		1,653	855
Interest income		(88)	(7)
Loss on disposal property, plant and equipment		841	100
Gain on disposal of other investment		–	(92)
Operating cash flows before movements in working capital		21,650	16,741
Increase in inventories		(4,081)	–
Increase in trade receivables		(10,511)	(8,596)
Decrease (increase) in other receivables, deposits and prepayments		3,758	(11,168)
(Decrease) increase in trade payables		(548)	791
Increase in other payables and accrued charges		1,641	2,290
Cash generated from operations		11,909	58
Interest received		88	7
Interest paid		(7)	(13)
NET CASH GENERATED FROM OPERATING ACTIVITIES		11,990	52
INVESTING ACTIVITIES			
Acquisition of associates		(6,601)	–
Advance to an associate		(1,885)	–
Acquisition of additional interest in a subsidiary		(3,336)	–
Repayment from shareholders		47	84
Repayment from related companies		–	496
Purchase of property, plant and equipment		(6,563)	(1,641)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	24	152	–
Proceeds from disposal of property, plant and equipment		–	51
Proceeds from disposal of other investment		–	390
NET CASH USED IN INVESTING ACTIVITIES		(18,186)	(620)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
FINANCING ACTIVITIES		
Issue for new shares	52,800	–
Share issue expenses	(15,108)	–
Contributions from minority interests	1,132	–
(Repayment to) advances from shareholders	(3,929)	3,322
Repayments to directors	(14)	(1,148)
Repayment to a related company	–	(960)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	34,881	1,214
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,685	646
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	166	132
CASH AND CASH EQUIVALENTS AT BEGINNING		
OF THE YEAR	1,996	1,218
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and bank balances	30,847	2,176
Bank overdraft	–	(180)
	<hr/>	<hr/>
	30,847	1,996

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF 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 30 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 24 January 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 28 January 2002 (the "Prospectus").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger basis as set out in the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange on 5 February 2002.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. However, it has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the year. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basic of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the 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 arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition and is capitalised and amortised on a straight-line basis over its useful economic life.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identified assets and liabilities of an associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identified acquired depreciable/amortised assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, investments in associates are stated at the Group's share of the net assets of the associates on acquisition plus the premium paid/less any discount in so far as it has not already been amortised/released to income, less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 losses.

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 rate 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.

Inventories

Inventories, comprise software licences and hardwares for resale, are stated at the lower of cost and net realisable value. Cost comprises the purchase costs and where applicable, those overheads incurred in bringing the inventories to their present location and condition and is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

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 asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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 FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. TURNOVER

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
KM Systems		
– Non-structural knowledge integration systems	37,047	20,442
– Structural information integration and analysis systems	7,585	3,842
KM related network application systems	3,163	956
Other system and software related services	3,229	1,440
	<u>51,024</u>	<u>26,680</u>

5. 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

An analysis of the Group's operations by geographical markets is as follows:

	External sales by geographical market		Segment result	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	1,858	5,649	798	291
PRC other than Hong Kong	49,166	21,031	17,863	15,132
	<u>51,024</u>	<u>26,680</u>	<u>18,661</u>	<u>15,423</u>
Interest on bank overdrafts			(7)	(13)
Share of results of associates			(477)	–
Taxation			(414)	–
Loss on disposal of subsidiaries			(2,199)	–
			<u>15,564</u>	<u>15,410</u>
Profit before minority interests				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

	Hong Kong		PRC other than Hong Kong		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
ASSETS						
Segment assets	2,527	2,959	73,879	29,319	76,406	32,278
Unallocated corporate assets					9,080	4,005
Consolidated total assets					85,486	36,283
LIABILITIES						
Segment liabilities	1,142	2,178	3,615	7,602	4,757	9,780
OTHER INFORMATION						
Amortisation of goodwill	211	271	217	191	428	462
Capital expenditure	1,307	7	5,256	1,634	6,563	1,641
Depreciation	239	111	1,414	744	1,653	855

6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 7)		
– fees	416	–
– salaries and other emoluments	5,840	869
Retirement benefits scheme contributions	157	110
Other staff costs	5,258	3,405
	11,671	4,383
Auditors' remuneration	420	376
Bad and doubtful debts	155	–
Depreciation	1,653	855
Loss on disposal of property, plant and equipment	841	100
Research and development	2,602	267
and after crediting:		
Interest income from bank deposits	88	7

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

7. DIRECTORS REMUNERATION

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Executive directors:		
Directors' fees	–	–
Salaries and other benefits	4,027	855
Contributions to retirement benefits pension schemes	43	14
Performance related incentive payments	370	–
Independent non-executive directors:		
Directors' fee	280	–
Salaries and other benefits	400	–
Contributions to retirement benefits pension schemes	–	–
Non-executive directors:		
Directors' fee	136	–
Salaries and other benefits	1,000	–
Contributions to retirement benefits pension schemes	–	–
Total emoluments	<u>6,256</u>	<u>869</u>

Details of emoluments by individuals are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Director A	1,743	137
Director B	1,254	25
Director C	268	77
Director D	1,160	630
Director E	71	–
Director F	340	–
Director G	340	–
Director H	80	–
Director I	1,000	–
Director J	–	–
Director K	–	–
	<u>6,256</u>	<u>869</u>

No directors waived any emoluments for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

8. EMPLOYEE EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2001: one) were directors of the Company whose emoluments are included in the above disclosure in note 7 above. The emoluments of the remaining one (2001: four) individuals were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Employees		
– Basic salaries and allowances	810	1,249
– Retirement benefit scheme contributions	12	33
	<u>822</u>	<u>1,282</u>

The emoluments of each of the above employees were less than HK\$1,000,000 during each of the year ended 31 December 2002 and 2001.

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

In accordance with the applicable enterprise income tax law of the PRC, Beijing Linefan Technology Company Limited ("Beijing Linefan"), 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. The income tax exemption period of Beijing Linefan expired in the year ended 31 December 2001. The charge of the Group for the year represents the provision on PRC income tax calculated at 7.5% on the assessable profit of Beijing Linefan. In addition, Beijing Linefan Silver-Soft Technology Company Limited ("Beijing Silver-Soft"), another PRC operating subsidiary of the Group, was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 2002, and is eligible to receive preferential treatment which entitle it to be charged at the rate of 15%. Moreover, it is also eligible for exemption for income tax for its first three years of operations and is entitled to a 50% relief on the income tax that would otherwise be charged for succeeding three years. No provision for income tax on the assessable profit of Beijing Silver-Soft is required for the year as it is under the tax exemption period. For the other PRC subsidiaries of the Group, they have either incurred a loss or have sufficient tax losses brought forward to set off against current year's assessable profit and no provision for PRC income tax is required for the year.

No provision for Hong Kong Profits Tax has been made in the financial statements since the Company's Hong Kong subsidiary has made no assessable profit for the year.

Neither the Group nor the Company had any material unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

10. DIVIDEND

No dividend was paid or proposed during 2002, nor has any dividend been proposed since the balance sheet date (2001: Nil).

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit for the year and earnings for the purpose of the basic earnings per share	<u>16,354</u>	<u>15,157</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	856,158,493	709,090,000
Effect of dilutive potential ordinary shares on options	<u>90,314</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>856,248,807</u>	<u>N/A</u>

The weighted average of ordinary shares for the purpose of basic earnings per share is calculated on the assumption that the Group Reorganisation and the capitalisation issue of the Company had been effective since 1 January 2001.

For the year ended 31 December 2001, no share options were granted and no potential dilutive ordinary shares existed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computers, network and related equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1 January 2002	911	754	3,406	–	5,071
Exchange adjustments	–	1	6	–	7
Additions	1,179	1,385	3,694	305	6,563
Disposal of subsidiaries	(137)	–	(108)	–	(245)
Disposals	(592)	(359)	–	–	(951)
At 31 December 2002	1,361	1,781	6,998	305	10,445
DEPRECIATION					
At 1 January 2002	100	250	1,505	–	1,855
Exchange adjustments	–	–	2	–	2
Provided for the year	225	269	1,113	46	1,653
Eliminated on disposal of subsidiaries	(81)	–	(60)	–	(141)
Eliminated on disposals	(4)	(106)	–	–	(110)
At 31 December 2002	240	413	2,560	46	3,259
NET BOOK VALUES					
At 31 December 2002	1,121	1,368	4,438	259	7,186
At 31 December 2001	811	504	1,901	–	3,216

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

13. INVESTMENTS IN SUBSIDIARIES

THE COMPANY
HK\$'000

Unlisted shares, at cost	30,074
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Details of the subsidiaries of the Company as at 31 December 2002 are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group directly or indirectly	Principal activities
Beijing Hangfan Technology Company Limited	PRC	RMB1,000,000	100%	Application software provider of non-structural knowledge integration systems and services
Beijing Linefan Silver-Soft Technology Company Limited	PRC	RMB5,000,000	100%	Sale of non-structural and structural integrations 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	The British Virgin Islands ("BVI")	US\$67,200	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

13. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group directly or indirectly	Principal activities
Linefan Software (Beijing) Company Limited	PRC	HK\$4,000,000	100%	Applications software provider of non-structural knowledge integration systems and services
Shanghai Hangfan Technology Company Limited	PRC	RMB1,250,000	60%	Sale and implementation of KM related network application system and services
Wuhan Linefan Technology Company Limited	PRC	RMB1,000,000	100%	Sale, development and implementation of non-structural knowledge integration systems and services

Chineseroad Incorporated and Linefan Software (Beijing) Company Limited are held by the Company directly. All other subsidiaries are held by the Company indirectly.

14. INVESTMENTS IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets of associates	1,370	—
Goodwill (Note)	4,866	—
Negative goodwill (Note)	(113)	—
	<u>6,123</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

14. INVESTMENTS IN ASSOCIATES (continued)

Note:

	THE GROUP	
	Goodwill HK\$'000	Negative goodwill HK\$'000
GROSS AMOUNT		
At 1 January 2002	–	–
Arising from acquisition of associates during the year	4,930	(116)
Exchange adjustments	3	–
	<u>4,933</u>	<u>(116)</u>
At 31 December 2002		
AMORTISATION		
At 1 January 2002	–	–
Charge for the year	67	–
Released in the year	–	(3)
	<u>67</u>	<u>(3)</u>
At 31 December 2002		
CARRYING AMOUNT		
At 31 December 2002	<u>4,866</u>	<u>(113)</u>
At 31 December 2001	<u>–</u>	<u>–</u>

The goodwill and negative goodwill arose from the acquisition of associates are amortised/released on a straight-line basis over 10 years.

Details of the Group's associates at 31 December 2002 are as follows:

Name of associate	Place of establishment	Issued and fully paid registered capital	Proportion of nominal value of registered capital held by the Company indirectly	Principal activity
Beijing Wancaifeiyang Technology Company Limited 北京文采飛揚科技有限公司	PRC	RMB770,000	35%	Sales, development and implementation of structural and non-structural, integration systems and services
Anhui Linefan Yiyang Technology Company Limited 安徽藍帆意揚科技有限公司	PRC	RMB10,000,000	45%	Sales, development and implementation of structural and non-structural, integration systems and services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

15. GOODWILL

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2002	4,634
Exchange adjustments	5
Arising on partial acquisition of a subsidiary during the year	2,976
Eliminated on disposal during the year	(2,711)
	<hr/>
At 31 December 2002	4,904
AMORTISATION	
At 1 January 2002	629
Exchange adjustments	2
Provided for the year	428
Eliminated on disposal during the year	(482)
	<hr/>
At 31 December 2002	577
NET BOOK VALUE	
At 31 December 2002	4,327
	<hr/>
At 31 December 2001	4,005
	<hr/>

The goodwill arose from the acquisition of subsidiaries is amortised on a straight-line basis over 10 years.

16. INVENTORIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Finished goods for resale		
Hardwares	1,082	—
Software licenses	2,999	—
	<hr/>	<hr/>
	4,081	—
	<hr/>	<hr/>

Included above are hardwares of HK\$1,082,000 (2001: HK\$Nil) which are carried at their net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

17. TRADE RECEIVABLES

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0-60 days	10,167	5,541
61-90 days	2,957	2,378
>90 days	4,853	1,696
	17,977	9,615

18. AMOUNTS DUE FROM AN ASSOCIATE/SUBSIDIARIES

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

19. AMOUNTS DUE FROM/TO DIRECTORS AND SHAREHOLDERS

The balances are unsecured, interest-free and were fully settled during the year.

20. TRADE PAYABLES

The following is an aged analyse of trade payables at the balance sheet date:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0-60 days	-	776
61-90 days	-	128
>90 days	-	322
	-	1,226

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

21. SHARE CAPITAL

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

Pursuant to a meeting of the shareholders of the Company held on 24 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) 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, (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 year ended 31 December 2002

21. SHARE CAPITAL (continued)

- (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:

Shareholder	Number of shares issued by way of capitalisation Issue
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
	<u>708,418,000</u>

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 5 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 consolidated balance sheet at 31 December 2001 represents the issued capital and share premium of Chineseroad Incorporated, which was acquired by the Company pursuant to the Group Reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

22. SHARE PREMIUM AND RESERVES

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

The special reserve represents the difference between the nominal amount of shares and share premium of Chineseroad Incorporated and the nominal amount of the Company's shares issued pursuant to the Group Reorganisation.

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

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2002	–	–	–	–
Arising from Group Reorganisation	–	26,067	–	26,067
Issue of new shares by way of capitalisation	(7,084)	–	–	(7,084)
Issue of shares under the placing	50,600	–	–	50,600
Share issue expenses	(15,108)	–	–	(15,108)
Loss for the year	–	–	(2,645)	(2,645)
	<u>28,408</u>	<u>26,067</u>	<u>(2,645)</u>	<u>51,830</u>
At 31 December 2002	<u>28,408</u>	<u>26,067</u>	<u>(2,645)</u>	<u>51,830</u>

The contributed surplus of the Company arose from the Group Reorganisation on 24 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.

The Company's reserves available for distribution to shareholders as at 31 December 2002 represent the aggregate of share premium and contributed surplus less accumulated loss of HK\$51,830,000 (2001: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

23. SHARE OPTIONS

On 24 January 2002, a share option scheme was approved pursuant to 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 employees 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 24 January 2002.

An aggregate of 92,900,000 options each with an exercise price of HK\$0.183 for one ordinary share were granted by the Company on 15 November 2002 pursuant to the Share Option Scheme to selected employees of the Group. No options have been exercised up to 31 December 2002 and 92,900,000 options remain outstanding as at 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. DISPOSAL OF SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	104	–
Trade receivables	1,994	–
Other receivables, deposits and prepayments	406	–
Bank balances and cash	89	–
Trade payables	(678)	–
Other payable and accrued charges	(211)	–
Bank overdrafts	(241)	–
Amount due to a shareholder	(1,000)	–
Amount due to a director	(518)	–
Minority interest	25	–
	(30)	–
Goodwill reserve realised	2,229	–
	2,199	–
Loss on disposal	(2,199)	–
Total consideration	–	–
Analysis of the net inflow of cash and cash equivalents in connection with the disposed subsidiaries:		
Bank balances and cash disposed of	(89)	–
Bank overdrafts disposed	241	–
Net inflow of cash and cash equivalents	152	–

The subsidiaries disposed of during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

25. OPERATING LEASE COMMITMENT

The Group as lessee

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Minimum lease payments paid under operating leases in respect of office premises during the year	<u>1,938</u>	<u>1,566</u>

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	522	950
In the second to fifth year inclusive	<u>3</u>	<u>444</u>
	<u>525</u>	<u>1,394</u>

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

26. 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 31 December 2002 were based on 19%, 30% and 12.5% (2001: 19%), respectively, of the average wages of workers in Beijing, Wuhan and Shanghai (2001: Beijing), the cities where the Group's PRC's staff are located, and amounted to approximately HK\$34,000 (2001: HK\$55,000).

The Group's Hong Kong office implemented a mandatory provident fund scheme in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000.

FINANCIAL SUMMARY

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

	Year ended 31 December 2002 HK\$'000	Year ended 31 December 2001 HK\$'000	Year ended 31 December 2000 HK\$'000	Period from 12 April 1999 to 31 December 1999 HK\$'000
Turnover	51,024	26,680	8,603	7
Cost of sales	(3,958)	(1,664)	(990)	(2)
Gross profit	47,066	25,016	7,613	5
Other operating income	239	169	4,085	2
Distribution costs	(1,029)	(127)	(2,952)	–
Administrative expenses	(27,187)	(9,173)	(4,297)	(442)
Amortisation of goodwill	(428)	(462)	(158)	(5)
Profit (loss) from operations	18,661	15,423	4,291	(440)
Interest on bank overdrafts	(7)	(13)	–	–
Loss on disposal of subsidiaries	(2,199)	–	–	–
Share of results of associates	(477)	–	(19)	(564)
Profit (loss) before taxation	15,978	15,410	4,272	(1,004)
Taxation	(414)	–	–	–
Profit (loss) before minority interests	15,564	15,410	4,272	(1,004)
Minority interests	790	(253)	279	14
Profit (loss) for the year/period	16,354	15,157	4,551	(990)

FINANCIAL SUMMARY

Assets and Liabilities

	31 December 2002 HK\$'000	31 December 2001 HK\$'000	31 December 2000 HK\$'000	31 December 1999 HK\$'000
Non-current Assets	17,636	7,221	6,995	2,437
Current Assets	67,850	29,062	9,481	2,470
Current Liabilities	4,757	9,780	5,568	2,311
Net Current Assets	63,093	19,282	3,913	159
Net Assets	80,729	26,074	17,731	2,612

Notes:

1. The summary of 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 consolidated on the basis set out in note 1 to the financial statements. The summary of the consolidated results of the Group for the period from 12 April 1999 to 31 December 1999 and the year ended 31 December 2000 has been prepared from the financial statements of the companies now comprising the Group for the period from 12 April 1999 to 31 December 1999 and the year ended 31 December 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated results of the Group for the years ended 31 December 2002 and 2001 are set out on page 24 of the annual report.
2. The consolidated balance sheet as at 31 December 1999 and 2000 have been extracted from the published financial information of the Company for the period from 12 April 1999 to 31 December 1999 and the year ended 31 December 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheet as at 31 December 2002 and 2001 is as set out on page 25 of the annual 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 11th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong on 23rd April, 2003 (Wednesday) at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company together with the reports of the directors ("Directors") and auditors thereon for the year ended 31st December 2002;
2. To re-elect the retiring Directors and to authorize 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 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, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue or otherwise deal with additional 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 the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company 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 of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than by way of (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of or the grant of any option under any share option scheme of the Company or similar arrangement for the time being adopted for the issue or grant to officers and/or employees of the Company and/or any of its subsidiaries of shares or options to subscribe for or rights to acquire shares of the Company; (iii) any scrip dividend or 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 or (iv) 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 of the Company, shall not exceed 20 % 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 said approval be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this Resolution:
- (aa) "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest 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 any applicable laws to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meeting.
- (bb) "Rights Issue" means an offer of shares in the share capital of the Company or an offer or issue of warrants or options or similar instruments to subscribe for shares in the share capital of the Company open for a period fixed by the Directors of the Company to 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 in the Company (subject to such exclusions or other arrangements as the Directors of the Company 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, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

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

"THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period as defined in the foregoing Resolution 4(d)(aa) of all powers of the Company to repurchase issued shares in the share capital of the Company on the Growth Enterprise Market of the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange or of any such other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of issued shares of the Company and securities convertible into shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% 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 said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as in the foregoing Resolution 4(d)(aa)."
6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** conditional upon the foregoing Resolutions No. 4 and 5 being passed, the general mandate granted to the Directors of the Company to allot, issue or otherwise deal with additional shares of the Company pursuant to Resolution No. 4 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 5."

7. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** pursuant to clause 8.2 of the existing share option scheme (the "Scheme") adopted pursuant to the written resolutions of the shareholders of the Company passed on 24th January 2002 and conditional upon the Stock Exchange granting the listing of and permission to deal in any Shares, representing a maximum of 10% of the issued share capital as at the date of passing of this Resolution, which may be issued upon the exercise of the options to be granted under the accordingly refreshed 10% limit of the Scheme, approval be and is hereby generally and unconditionally granted for "refreshing" the 10% general limit on the grant of options under the Scheme so that the aggregate nominal amount of the total number of shares in the capital of the Company to be allotted and issued pursuant to the exercise of all options to be granted under the Scheme and any other share option schemes of the Company (excluding options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the rules of the Scheme or any other share option schemes of the Company) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and **THAT** the Directors of the Company be and are hereby authorised to grant options up to the limit as refreshed and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options in accordance with the rules of the Scheme."

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

Hong Kong, 21 March 2003

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or (if holding two or more shares) more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notorially certified copy thereof, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by not less than 48 hours before the time appointed for holding the Annual General 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 16th to 23rd April, 2003 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2003 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 15th April, 2003.
5. An explanatory statement containing further details regarding the proposed Resolutions nos. 4 to 7 will be dispatched to shareholders together with the Company's 2002 Annual Report of which this notice forms part.