



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

(Incorporated in the Cayman Islands with limited liability)

Interim
Report
2003

* for identification purpose only

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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 Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and no misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Financial Highlights

Unaudited turnover decreased to approximately HK\$11,383,000 for the six months ended 30 June 2003 representing a decrease of approximately 49.15% as compared to the corresponding period in 2002.

Unaudited net loss attributable to shareholders amounted to approximately HK\$9,018,000 for the six months ended 30 June 2003.

INTERIM RESULTS

The board of directors (the "Board") of the Linefan Technology Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2003 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2003	2002	2003	2002
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	2	1,278	11,487	11,383	22,384
Cost of sales		(982)	(1,274)	(2,134)	(2,307)
Gross profit		296	10,213	9,249	20,077
Other income		349	61	396	138
Selling expenses		(313)	(175)	(385)	(290)
Administrative expenses		(10,309)	(6,635)	(17,649)	(11,765)
Profit/(loss) from operations		(9,977)	3,464	(8,389)	8,160
Amortization of goodwill		(366)	(116)	(485)	(232)
Finance costs		(27)	–	(28)	(7)
Share results of associates		10	(48)	(368)	(48)
Profit/(loss) before taxation		(10,360)	3,300	(9,270)	7,873
Taxation	5	–	–	–	–
Profit/(loss) after taxation but before minority interests		(10,360)	3,300	(9,270)	7,873
Minority interests		162	284	252	514
Profit/(loss) attributable to shareholders		(10,198)	3,584	(9,018)	8,387
Dividend	6	–	–	–	–
Earnings/(loss) per share					
– Basic (in HK cents)	7	(1.10)	0.39	(0.97)	1.05
– Diluted (in HK cents)	7	(1.00)	N/A	(0.88)	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2003 (Unaudited) HK\$'000	At 31 December 2002 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		5,392	7,186
Investments in associates		5,607	6,123
Other investment		250	–
Intangible assets		5,550	–
Goodwill		5,565	4,327
		22,364	17,636
Current assets			
Inventories		3,009	4,081
Trade receivables	8	17,581	17,977
Other receivables, deposits and prepayments		9,812	13,060
Amounts due from an associate		1,882	1,885
Cash and bank balances		22,856	30,847
		55,140	67,850
Current liabilities			
Other payables and accrued charges		3,004	4,343
Tax payable		414	414
Bank borrowing (unsecured, due within one year)		2,298	–
		5,716	4,757
Net current assets			
		49,424	63,093
		71,788	80,729
Capital and reserves			
Share capital	9	9,291	9,291
Reserves		61,844	71,002
		71,135	80,293
Minority interests			
		653	436
		71,788	80,729

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2003	2,002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net cash from/(used in) operating activities	(3,094)	393
Net cash used in investing activities	(7,573)	(4,721)
Net cash from financing activities	2,769	34,054
Increase/(decrease) in cash and cash equivalents	(7,898)	29,726
Cash and cash equivalents at the beginning of period	30,847	1,997
Effect of exchange rate changes	(93)	206
Cash and cash equivalents at the end of period	22,856	31,929
Analysis of balances of cash and cash equivalents:		
Bank balance and cash	22,856	32,132
Bank overdraft	-	(203)
	22,856	31,929

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2003

	Share capital	Share premium	Capital reserve	Contributed surplus	PRC statutory reserve	Exchanged reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	521	2,810	3,970	-	1,488	55	17,230	26,074
Arising from Group Reorganisation	(514)	(2,810)	-	3,324	-	-	-	-
Issued of new shares by the way of capital	7,084	(7,084)	-	-	-	-	-	-
Issued of shares under the placing	2,200	50,600	-	-	-	-	-	52,800
Share issue expenses	-	(15,077)	-	-	-	-	-	(15,077)
Exchange adjustment	-	-	-	-	-	217	-	217
Profit for the period	-	-	-	-	-	-	8,387	8,387
At 30 June 2002	9,291	28,439	3,970	3,324	1,488	272	25,617	72,401
At 1 January 2003	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293
Exchange adjustment	-	-	-	-	-	(140)	-	(140)
Loss for the period	-	-	-	-	-	-	(9,018)	(9,018)
At 30 June 2003	9,291	28,408	3,970	3,324	11,623	88	14,431	71,135

Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited interim financial statements of the Group have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have also complied with the applicable disclosure provisions of GEM Listing Rules. The measurement basis used in the preparation of the financial statements is historical cost.

The accounting policies and basis of preparation adopted for the presentation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002.

2. TURNOVER

Turnover represents goods sold and services rendered, net of value-added tax, business tax and government surcharges and after allowance of goods returned and trade discounts.

	For the three months ended 30 June		For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
KM Systems				
– Non-structural knowledge integration systems	1,142	8,608	8,218	15,593
– Structural information integration and analysis systems	78	688	816	1,612
KM related network application systems	28	90	28	1,525
Other system and software related service	30	2,101	2,321	3,654
	1,278	11,487	11,383	22,384

3. 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 market is as follows:

	For the six months ended 30 June			
	External sale by geographical market		Segment results	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical market:				
Hong Kong	–	1,612	(4,214)	(1,570)
PRC other than Hong Kong	11,383	20,772	(4,175)	9,730
	11,383	22,384	(8,389)	8,160
Interest on bank borrowing and overdrafts			(28)	(7)
Share of results of associates			(368)	(48)
Amortisation of goodwill			(485)	(232)
Profit/(loss) before minority interests			(9,270)	7,873

	Hong Kong		PRC other than Hong Kong		Consolidated	
	30 June	31 December	30 June	31 December	30 June	31 December
	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	1,453	2,527	65,878	73,879	67,331	76,406
Unallocated corporate assets					10,173	9,080
Consolidated total assets					77,504	85,486
LIABILITIES						
Segment liabilities	2,385	1,142	3,331	3,615	5,716	4,757
OTHER INFORMATION						
Amortisation of goodwill	–	211	485	217	485	428
Capital expenditure	18	1,307	5,622	5,256	5,640	6,563
Depreciation	76	239	898	1,414	974	1,653

4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total staff costs	1,472	2,398	2,800	5,336
Bad debts	4,092	–	4,092	–
Provision for doubtful debts	(972)	–	1,649	–
Depreciation	460	428	974	575
Research and development	3,081	681	3,760	1,245
and after crediting				
Interest income from bank deposits	47	15	79	48

5. TAXATION

In accordance with the applicable enterprise income tax law of the PRC, Beijing Linefan Silver-Soft Technology Company Limited ("Beijing Linefan"), one of the Group's operating subsidiaries in the PRC, was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 2002, and is eligible to receive preferential treatment which entitles it to charges 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 assessment profit of Beijing Linefan is required for the period 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 years assessable profit and no provision for PRC income tax is required for the period.

No provision for Hong Kong Profits Tax has been made as the Company's Hong Kong subsidiary companies has no assessable profit for the six months ended 30 June 2003.

6. DIVIDEND

The board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the following data:

	For the six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Profit/(loss) for the period for the purpose of the basic earnings/(loss) per share	(9,018)	8,387
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	929,090,000	795,792,144
Effect of dilutive potential ordinary shares on options	92,900,000	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	1,021,990,000	N/A

8. TRADE RECEIVABLES

The Group generally allows a credit period of 60 days to its trade customers and accepts longer credit period up to 120 days to selected trade customers. The following is an aged analysis of trade receivables:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0-60 days	-	10,167
61-90 days	1,015	2,957
>90 days	16,566	4,853
	17,581	17,977

9. 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
<hr/>		
At 30 June 2003	5,000,000,000	50,000
<hr/>		
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	–
	672,000	–
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
<hr/>		
At 30 June 2003	929,090,000	9,291

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

- (a) each shares of HK\$0.10 each in the authorized share capital of the Company was subdivided into 10 shares of HK\$0.01 each;
- (b) the authorized 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;
- (c) 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 authorized to credit as fully paid up at premium of 672,000 shares already allotted and issued nil paid to (i) Ocean Grand Technology Company 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;

- (d) conditional on the share premium account of the Company being credited as a result of the placing of the shares of the Company, HK7,084,180 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
	708,418,000

Immediately following the completion of the Placing and the Capitalisation issue, the authorized 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 will be fully paid or credited as fully paid) and 4,070,910,000 shares will remain unissued.

- (e) 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. Details of the group reorganisation are set out in the prospectus issued by the Company dated 28 January 2002 (the "Prospectus").

10. SHARE OPTIONS 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 principal terms of which are set out in the section headed "Share Option Scheme" in the Prospectus. During the six months ended 30 June 2003, no options were granted. As at the date of this report, options in respect of a total 92,900,000 shares were granted since the adoption of the Share Option Scheme which were all made to selected employees and the options outstanding as at 30 June 2003 were as follows:

		No. of options granted	Exercise price	Exercisable period	No. of options held as at 1 January 2003	No. of options exercised during the six months ended 30 June 2003	No. of options lapsed during the six months ended 30 June 2003	No. of options held as at 30 June 2003
Selected Employees (In aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002– 14/11/2005	92,900,000	–	–	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 was almost fully utilized, a refreshment of the 10% general limit was approved at the 2002 annual general meeting of the Company held on 23 April 2003, 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.

The directors are of the view that the value of the theoretical value of the options granted 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.

11. LEASE COMMITMENTS

At 30 June 2003, the Group had commitments for future minimum lease payments under non-cancelable lease which fall due as follows:

	As at 30 June 2003 (Unaudited) HK\$'000	As At 30 June 2002 (Unaudited) HK\$'000
Within one year	253	2,126
In the second to fifth year inclusive	177	849
	430	2,975

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group faced an unexpected negative business environment resulted at the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC especially in Beijing which are the core business locations of the Group. Contracts under negotiation were nearly all postponed or cancelled due to the reasons that the management of the customers rejected business meetings and claimed to need more time to re-consider their own business plans. For those commercial customers, it appeared that they were tried to scale down their information technology ("IT") expenditures and even stopped their plans in their IT advancements. For governmental projects in the PRC targeted by the Group as the new business area, the Group experienced difficulties in pursuing the conclusion of the contracts as the projects themselves might be subject to further review by the related PRC governmental departments.

However, the Group believed that the negative impact from SARS was only temporary in nature and the business environment would soon be recovered. For the business plan of the whole year, the Group maintained its scheduled expenditures in ordinary business operations including research & development. Following the removal of Beijing from the list of SARS-infected areas and the travel advisory against Beijing by the World Health Organisation on 24 June 2003, the Group started to make marketing efforts to contact the customers and promote its products. The Group then gradually re-opened the dialogues with the customers and noted the pace of their re-scheduled business plans in the second half year of 2003.

Financial review

During the period under review, turnover dropped substantially by 49.15% to approximately HK\$11,383,000 from approximately HK\$22,384,000 for the corresponding period in the previous year mainly due to the adverse impact resulted from the outbreak of SARS.

Administrative expenses for the six months under review increased to approximately HK\$17,649,000 from approximately HK\$11,765,000 for the corresponding period in the previous year. Such increases were mainly due to expenses in research and development in the e-Government products and the provisions for bad and doubtful debts provided under the then business environment and the performance of the customers. Selling expenses increased to approximately HK\$385,000 from approximately HK\$290,000 for the corresponding period in the previous year, which primarily were the marketing and promotion expenses targeted to re-capture the market at the shortest time as soon as possible.

Due to the net effect of the above, the loss attributable to shareholders was approximately HK\$9,018,000 as compared to the profit attributable to shareholders of approximately HK\$8,387,000 for the corresponding period in the previous year.

Outlook

Following the fading out of the adverse effect brought out by SARS, the Group believes that the general business environments in both the PRC and Hong Kong will be recovered very soon. The customers will re-invest in their IT advancements which will provide business opportunities for the Group. However, this view will be subject to the actual situation.

Besides the segment of general customers, Group remains its focus on the governmental projects in the PRC to secure a medium to long term business development. The Group will keep on its research and development of its KM technology to tap for new emerging business areas at the same time.

Liquidity and financial resources

The Company was listed on the GEM of the Stock Exchange through a placement of 220,000,000 shares on 5 February 2002. The net proceeds from the placement, after deductions for relevant expenses, was approximately HK\$38,000,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus. For the period under review, the Group financed its operations with its own capital and an short-term general banking facility for a limit of HK\$2,500,000 extended by a bank in Hong Kong. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Employee information

Currently, the Group had 6 employees working in Hong Kong and 137 employees working in the PRC. The total of employee remuneration, including that of the directors and provident contributions, for the six months under review amounted to approximately HK\$2,800,000. The Group remunerates its employees mainly based on their performance and experience and the prevailing industry practice.

Capital structure

The shares of the Company were listed on the GEM of the Stock Exchange on 5 February 2002. There has been on change in the capital structure of the Company since that date.

Significant investment

For the six months ended 30 June 2003, the Group had no significant investments.

Material acquisitions and disposals/future plans for material investments

The Group had no material acquisitions or disposals during the six months ended 30 June 2003. It has no plans for material investments or capital assets other than those set out in the Prospectus.

Segmental information

Details have been set out in Note 3 "Business and Geographical Segments" under "Notes to the condensed financial statements". During the period under review, the turnover generated from the PRC market accounted for approximately 100% for the Group's total turnover. It was resulted from the Group's efforts in market expansion spreading over the mainland.

Charge on group assets and contingent liabilities

There was no charge on the Group's assets and no significant contingent liabilities as at 30 June 2003.

Gearing ratio

As at 30 June 2003, the Group had cash and cash equivalents of around HK\$22,856,000 in its current assets while its current liabilities stood at approximately HK\$5,716,000. The Group had an outstanding short-term general banking facility of approximately HK\$2,298,000 and did not have long-term debts as of 30 June 2003 and its shareholders' fund amounted to approximately HK\$71,135,000. In this regard, the Group had a net cash position and its gearing ratio should be 3.23% (short-term and long term debts to shareholders' fund) as of 30 June 2003.

Exposure to fluctuations in exchange rates

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

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD

ACTIONS TO BE TAKEN

ACTUAL PROGRESS

Development of Products/Services

KM systems

1. Non-structural knowledge integration systems

- | | | |
|---|---|---|
| a | Release LF e-Center 1.x Pro | Released LF e-Center 1.5 and 2.0 |
| b | Commence system design of LF e-Agent, a personal indigent information agent | Analysis completed, system design under development |
| c | Commence system design of LF e-Assistant, a corporate level information assistant | Analysis completed, system design under development |

2. Structural information integration and analysis systems

- | | | |
|---|--|----------------------------|
| a | Continue to engage in system integration, consulting, software sales and training services | Consistent with Prospectus |
| b | Complete development of user and technical manuals for ADMS | Under development |
| c | Development of system integration and consulting services for ADMS | Under development |

KM related network application systems

- | | | |
|---|--|---|
| a | Release LF e-Media 1.0 | Completed detailed system design which can be used in digital library |
| b | Further upgrade the kernel of LF webmail | Under development |
| c | Conduct the lab test of Identity Verification System | Completed |

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 Zhejiang and Jiangsu Handled by Shanghai office
2. Structural information integration and analysis systems
 - a. Establish Shanghai office and workforce: Completed
– marketing team

Sales, Marketing and Business Development

KM systems

1. Non-structural knowledge integration systems and KM related network application systems
 - a. Continue to promote the brand names of the Group Consistent with Prospectus
 - b. Form close alliances with well recognised management consulting groups to provide total KM solutions Under development
 - c. Use printing media to promote KM systems for a limited period Under development
 - d. Actively participate in exhibitions and trade shows Postponed because of SARS

2. Structural information integration and analysis systems

- | | | |
|---|--|----------------------------|
| a | Continue to organise joint seminars with business partners for system integration and consulting services and sale of ADMS | Postponed because of SARS |
| b | Continue to arouse international brandname awareness through press conferences, conventions and trade shows | Postponed because of SARS |
| c | Intense sales and marketing activities in Beijing | Consistent with Prospectus |

Enhancement of Research and Development Capabilities*KM systems*

1. Non-structural knowledge integration systems

- | | | |
|---|---|-----------------------|
| a | Develop the basic platform of LF e-Center into a independent middleware open to other application programmers | Under development |
| b | Develop auto Chinese information labeling technology | Completed version 1.0 |
| c | Continue to develop high speed global webpage information acquisition technology | Under development |
| d | Continue to improve auto-abstracting technology for Chinese language | Under development |

2. Structural information integration and analysis systems

- | | | |
|---|---|-----------|
| a | Continue the research of application software for mobile computing devices | Postponed |
| b | Commence market research on leading-edge data management, data analysis and mobile computing applications on high bandwidth data communication networks | Postponed |

KM related network application systems

- | | | |
|---|--|----------------------------|
| a | Optimise the system performance to accommodate large number of subscribers | Consistent with Prospectus |
|---|--|----------------------------|

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD FROM 5 FEBRUARY 2002 TO 30 JUNE 2003

The actual net proceeds from issuance of new shares on 5 February 2002 was approximately HK\$38,000,000 as compared to the budgeted net proceeds of HK\$35,000,000 in the Prospectus. The surplus of approximately HK\$3,000,000 would 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 30 June 2003 (the "Period") are as follows:

	Proposed total fundings required from net proceeds <i>HK\$'million</i>	Proposed fundings required during the Period <i>HK\$'million</i>	Actual fundings spent during the Period <i>HK\$'million</i>
For products/service development for the advancement of the Group's existing KM products and the commencement of new products design	3.0	2.0	1.5
For enhancement of research and development capabilities for continuing the R&D of new KM systems and its related products for increasing the R&D professionals from 56 to 80	11.0	5.6	6.9
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	9.8	5.1	4.1
For geographical expansion for establishment of sales and distribution network and Shanghai, Hong Kong, Guangzhou, Zhejiang, Jiangsu, Chongqing, Xian and selected overseas market	5.2	2.7	2.1
For equipment and facilities for upgrading the Group's computer software, hardware and management information system	3.5	2.0	1.8
For general working capital of the Group	2.5	-	-
	35.0	17.4	16.4

DIRECTORS' INTEREST IN EQUITY OR DEBT SECURITIES

As at 30 June 2003, the interests of the directors in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the directors 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 issued share capital of Capital Shares Group Limited. Accordingly, 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 30 June 2003, none of the directors had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30 June 2003, neither the company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive if the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons had an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Name	Number of shares	Percentage of shareholding
Capital Shares Group Limited (<i>Note 1</i>)	196,054,943	21.10%
Mr. Zhu Zhaofa (<i>Note 1 and 2</i>)	196,054,943	21.10%
Ocean Grand Technology Company Limited ("OGTCL") (<i>Note 3</i>)	155,600,000	16.75%
Ocean Grand Holdings Limited ("OGHL") (<i>Note 3 and 4</i>)	155,600,000	16.75%
Tradeweb Associates Limited (<i>Note 5</i>)	78,890,178	8.49%
Ms. Chen Xuemu (<i>Note 5 and 6</i>)	78,890,178	8.49%
Webway Finance Limited (<i>Note 7</i>)	70,200,000	7.56%
Ms. Li Suqin (<i>Note 7 and 8</i>)	70,200,000	7.56%
Impact Asia enterprises Limited (<i>Note 9</i>)	57,477,188	6.12%
Ms. Wong Siu Fan (<i>Note 9 and 10</i>)	57,477,188	6.12%

Notes:

- Capital Shares Group Limited is beneficially-owned by Mr. Zhu Zhaofa and Ms Xue Wanjuan (spouse of Mr. Zhu), as to 83.85% and 16.15% respectively.
- The shares are registered in the name of Capital Shares Group Limited, Mr. Zhu is interest in 83.85% of the issued share capital of Capital Share Group Limited and is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited.
- OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the Main Board of the Stock Exchange.
- The shares are registered in the name of OGTCL. OGHL is interested in the entire issued share capital of OGTCL and is deemed to be interest in all the share registered in the name of OGTCL.
- Tradeweb Associates Limited is 100% beneficially-owned by Ms. Chen Xuemu.
- The shares are registered in the name of Tradeweb Associates Limited, Ms. Chen Xuemu is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules.
- Webway Finance Limited is 100% beneficially-owned by Ms. Li Suqin.

8. The shares are registered in the name of Webway Finance Limited, Ms. Li Suqin is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules
9. Impact Asia Enterprises Limited is 100% beneficially-owned by Ms. Wong Siu Fan.
10. The shares are registered in the name of Impact Asia Enterprises Limited, Ms. Wong Siu Fan is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 30 June 2003, 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.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee (the "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 Committee currently comprises Dr. Chan, Peter Yat-Tung and Mr. Hu Wai, who are the independent non-executive directors of the Company. The Group's unaudited interim results for the six months ended 30 June 2003 had been reviewed by the Committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and the adequate disclosure had been made.

By Order of the Board
Zhu Zhaofa
Executive Director

Hong Kong, 31 July 2003