



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

(Incorporated in the Cayman Islands with limited liability)

03

Annual

Report

2003

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

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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.



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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Xu Wen Bo (*Chairman*)

Zhu Guang Bo

Zhu Zhaofa

Ma Gui Fang

Jiang Jian Sheng

#### Non-Executive Director

Gao Xin Min

#### Independent Non-Executive Directors

Chan, Peter Yat Tung

Hu Wei

### COMPLIANCE OFFICER

Xu Wen Bo

### COMPANY SECRETARY

Yuen Chi Ho *FCCA, AHKSA, CPA*

### QUALIFIED ACCOUNTANT

Yuen Chi Ho *FCCA, AHKSA, CPA*

### AUDIT COMMITTEE

Chan, Peter Yat Tung (*Chairman*)

Hu Wei

### SPONSOR

Shenyin Wanguo Capital (H.K.) Limited

### AUDITORS

Deloitte Touche Tohmatsu *CPA*

### LEGAL ADVISOR

Li & Partners, Solicitors

### HEAD OFFICE AND PRINCIPLE PLACE OF BUSINESS

1901, Henan Building

90 Jaffe Road

Wanchai

Hong Kong

### REGISTERED OFFICE

Century Yard, Cricket Square

Hutchins Drives, 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

Hang Seng Bank Limited

### GEM STOCK CODE

8166

### WEBSITE ADDRESS

[www.linefan.com](http://www.linefan.com)



## Chairman's Statement

For the year 2003, Linefan Technology Holdings Limited (the "Company") and together with its subsidiaries and a jointly controlled entity (the "Group") encountered a difficult business environment and recorded a downturn in the business performance. However, the Group continued to insist on its well-defined development goals and business strategies. In respect of knowledge management ("KM") technologies, the Group put aggressive efforts in developing its core technologies to get ready for the possible business opportunities in the coming year. The Group kept on extending its contacts with governmental departments and corporations in the People's Republic of China ("the PRC"), and established relationships with new business partners to lay down a solid foundation for future development.

### **CONTINUING DEVELOPMENT OF KM TECHNOLOGIES & PRODUCTS**

The Group believed advancement in our core technologies are the driving force for our growth. In 2003, we continued to focus on the development of KM technologies and products, more specifically, in the area of intelligent classification technologies, search technologies, capture technologies and the new voice search and processing technologies. Accordingly, we hoped to maintain our competitive edge in terms of KM technologies over our competitors and always to stimulate new business opportunities in any new emergent market segments.

### **REVIEW OF BUSINESS OPERATIONS**

The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the PRC in the year 2003 had a substantial negative impact on the business operations of the Group. Most of the business projects provided by the Group to our customers were highly related to their budgets for information technologies. The sudden negative business environment resulted from the SARS had severely interrupted their budgets and their own business performance. Our customers thus either postponed or cancelled their scheduled information technology expenditures which resulted at the postponements or cancellations of the business projects to be provided by the Group. As a result, the operations of the Group were rigorously affected and both our turnover and profit were dropped substantially.

On the other hand, the Group reviewed its own financial position in the year 2003 and adopted several measures in view of the negative business environment, which included implementing cost cutting exercises, providing provisions for bad and doubtful debts in view of the deteriorated quality of account receivables and providing impairment losses after reviewed the carrying amounts of assets.



## Chairman's Statement

### FUTURE DEVELOPMENT

With reference to the recent rebound of the business environment in the PRC, the Group expected that our performance in the coming year will be improved. Based on aforesaid core technologies and product development, we targeted to penetrate into new emergent markets in the PRC. For instance, the Group will start to provide KM supports to the petrochemical industry in the PRC through our jointly controlled entity just established.

Shortly after the balance sheet date, the Group had placed new shares to an independent third party in January 2004 to raise fundings to finance the Group's business development in relation to voice search engine. These voice search and processing technologies can be applied to the telecommunication industry in the PRC. As a quick knick off, the Group will acquire a professional technology and services provider of voice portal in telecommunication in the PRC upon the shareholders' approval at a special general meeting on 30th April 2004.

The Group is confident to recover from the year 2003 and achieve good results in the coming year.

**Xu Wen Bo**

*Chairman*

Hong Kong, 23rd April 2004



## Biographical Details of the Directors and Senior Management

### Executive Directors

**Mr. Xu Wen Bo** (徐文伯), aged 67, is the executive director and the chairman of the Company. He joined the Group in August 2002 and was appointed as an executive director of the Company on January 2003. Mr. Xu graduated from Beijing University, majored in Law. Prior to joining the Group, Mr. Xu has 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 committeeman of the Chinese People's Political Consultant Conference (CPPCC). Now Mr. Xu is still serving as the group leader of the China Digital Library Developing Strategy, the vice director of the China Internet Enlightening Engineer, and the chairman of the China Cultural Network.

**Mr. Zhu Guang Bo** (祝廣波), aged 38, is the executive director of the Company. He joined the Group in January 2004 and was subsequently appointed as Director in March 2004. Mr. Zhu holds a bachelor's degree in automatic control studies and a master's degree in business administration. Before joining the Group, Mr. Zhu was an officer sitting on the Education Commission of the People's Republic of China. Currently, Mr. Zhu is also serving as the chairman of an information technology company in the PRC.

**Mr. Zhu Zhaofa** (朱召法), aged 39, is the executive director and founder of the Company. 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 College of Nagasaki and TSD Corporation of Tokyo in Japan from 1988 to 1990.

**Mr. Jiang Jian Sheng** (姜建生), aged 49, is the executive director of the Company and the general manager of Ningbo Donghai Linefan Technology Company Limited. He joined the Group in August 2003 and was subsequently appointed as director in November 2003. Mr. Jiang graduated from Zhejiang University and holds a postgraduate degree. Before joining the Group, Mr. Jiang had worked as the director of the Computer Center of Sinopec Zhenhai Refining & Chemical Company Limited and as the general manager of Ningbo Hexin Computer Company.

**Ms. Ma Gui Fang** (馬桂芳), aged 38, is the executive director of the Company and the general manager of Beijing subsidiary of the Group. She joined the Group in March 2002, and was appointed as the executive director of the Company on June 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, act as the director of manufacture planning department, and had worked in the Jade Bird HuaGuang Group, act as the general manager of Enterprise Management.





## Biographical Details of the Directors and Senior Management

### Non-executive Director

**Mr. Gao Xin Min** (高新民), aged 67, 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 vice chairman of the China Information Industry Association, the standing vice chairman of the China Investment Association and as the senior advisor of the State Information Office.

### Independent non-executive Directors

**Doctor Chan, Peter Yat Tung** (陳日東博士), aged 53, 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 of science degree from the University of Miami, Florida, USA, and a doctor degree from the Loyola Law School, Los Angeles, USA. Doctor 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 30, was appointed as the independent non-executive director of the Company 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 senior manager of Corporate Finance Division.

### SENIOR MANAGEMENT

**Doctor Jia Hong Yang** (賈紅陽博士), aged 28, joined the Group in 2002, is the chief engineer of the Group. Doctor Jia holds a doctor degree in computing chemistry from the Chinese Academy of Sciences. Doctor Jia is responsible for the research and development. Prior to joining the Group, Doctor, Jia had studied and worked in the Chinese Academy of Sciences. Doctor Jia has rich experience on Chinese information procession and web based application system.

**Mr. Cheng Qi** (程琪), aged 38, the general manager of Wuhan Linefan Technology Company Limited. Before joining the Group in December 2003, he was the assistant to the general manager of Wuhan Branch of Beijing Longxin Information Technology Company (北京朗新信息科技公司), product manager of Shanghai Jiulong Information Technology Limited Company (上海久隆信息工程有限公司), technology manager of the Shanghai Branch of Beijing Yaode Computer Software Company (北京耀德計算機軟件公司) and director of the Information Centre of Hubei Xianning Municipal Power Supply Bureau (湖北省咸寧市供電局). Mr. Cheng holds a bachelor's degree in power system and automation studies from Huazhong University of Science and Technology.





## Biographical Details of the Directors and Senior Management

**Ms. Yu Jie** (虞潔), aged 40, is the general manager of Shanghai Hangfan Technology Company Limited. Before joining the Group in January 2003, she was once the marketing manager of Yingda E-commerce Software System (Shanghai) Limited Company (盈達電子商務軟件系統(上海)有限公司) and the chief executive officer of cnebiz.net. She also previously worked in the construction department of the Pudong Development Office of China Petrochemical Corporation and the planning department of Shanghai Petrochemical Design Institute (上海石化設計院). Ms. Yu graduated from the College of Chemical Engineering of East China University of Science and Technology. Currently, she is studying for a postgraduate degree in management science at the Economics and Management School of Tongji University.

**Mr. Yuen Chi Ho** (袁志豪), aged 36, joining the Group in September 2003, is the qualified accountant and company secretary of the Group. Mr. Yuen is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has over 10 years' audit and business advisory experience obtained in international accounting firms. Prior to joining to the Group, he had held an executive director and financial controller in a company listed on the main board of The Stock Exchange of Hong Kong Limited and had worked in a senior position in a logistic company for 2 years.

**Ms. Liu Nian** (劉念), aged 41, joining the Group in 1999, is the accounting manager of Beijing subsidiary of the Group. Ms. Liu graduated from Renmin University of China and major in accounting. Ms. Liu is responsible for the Group's financial and accounting matters in China. Prior to joining the Group, She had worked in the Beijing Kuashiji Cultural Office and the Beijing Film Institute.



## Management Discussion and Analysis

### FINANCIAL REVIEW

For the year ended 31st December 2003, the Group recorded a turnover of approximately HK\$14,421,000 (2002: HK\$51,024,000) representing a decrease of approximately 71.74% when compared with the year of 2002. The decrease was mainly due to the negative business environment resulted from the outbreak of SARS in the year 2003 in the PRC.

Cost of sales for the year under review increased to approximately HK\$5,380,000 from approximately HK\$3,958,000 of the corresponding year. The increase was mainly due to an increase in subcontracting costs in line with the decrease in number of staff in the PRC under the adoption of cost control measurement during the period of the outbreak of SARS.

Administrative expenses for the year under review amounted to approximately HK\$34,295,000, including a provision for bad and doubtful debts for the year ended 31st December 2003, increased by approximately HK\$7,108,000 compared with the year of 2002. With the implementation of cost control measures by the Group, administrative expenses, excluding the provision for bad and doubtful debts for the year of 2003, amounted to approximately HK\$24,219,000 representing a decrease of approximately 10.41% when compared to the corresponding year.

Distribution costs for the year under review amounted to approximately HK\$2,352,000 compared to HK\$1,029,000 of the corresponding year. Such increase was mainly attributable to the Group's strategies to speed up the process of e-Government business development, as well as strengthening its sales network and expanding its market.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$37,031,000 for the year ended 31st December 2003 (2002: profit of HK\$16,354,000).

Reference are made to the announcement dated 30th March 2004 of the Company in relation to postponement of board meeting, publication of annual results announcement and dispatch of annual report for the year ended 31st December 2003 and resumption of trading. The discrepancies between the unaudited consolidated management accounts for the year ended 31st December 2003, and the audited consolidated financial statements for the year ended 31st December 2003 were mainly the audit adjustments raised on (i) an impairment loss recognized in respect of goodwill on subsidiaries and an associate of approximately HK\$8 million on the difference between the estimated recoverable amount and the carrying amounts of the unamortised goodwill, (ii) additional allowance for bad and doubtful debts on trade receivables of approximately HK\$3 million, (iii) additional amortisation on intangible asset of approximately HK\$1 million on the estimated economic useful life of three years for the intangible assets, (iv) written-off of certain property, plant and equipment of a subsidiary of the Company not in use of approximately HK\$0.6 million, and (v) a reduction of the share of results of an associate of approximately HK\$0.3 million.



## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business operations from the cash revenues derived from the operating activities and short-term bank borrowings.

As at 31 December 2003, the shareholders' funds of the Group amounted to approximately HK\$43,052,000 (2002: HK\$80,293,000). Current assets amounted to approximately HK\$29,737,000 (2002: HK\$67,850,000) of which HK\$579,000 (2002: HK\$30,847,000) were cash and bank balances. Current liabilities amounted to approximately HK\$5,434,000 (2002: HK\$4,757,000) which comprised of other payables and accrued charges, short-term bank borrowings and income tax payable.

During the year, the Group has obtained banking facilities of HK\$2,500,000 from a bank. The short-term bank borrowings as at 31st December 2003 amounted to approximately HK\$1,063,000 (2002: nil), which is unsecured, interest-bearing and repayable within one year from the balance sheet date.

### GEARING RATIO

The gearing ratio of the Group as at 31st December 2003 was 2.47% (2002: nil), which is expressed as a percentage of the total bank borrowings over total shareholders' fund.

### BUSINESS REVIEW

For the year 2003, in order to achieve its well-defined business objectives, the Group invested substantial resources to develop its core technologies for KM, such as intelligent classification technologies, search technologies, capture technologies and voice search and processing technologies. Accordingly, the leadership of the KM technologies of the Group in the PRC as a whole was maintained. However, under the aforesaid unfavourable market conditions, many of our business projects were delayed and some even cancelled due to the reasons that resources putting in information technology improvement and development by our customers were cut down or withdrawn.

For the segment of e-Government, the Group successfully entered into the petrochemical industry in the PRC by the co-operation with one of the leading state-owned enterprises in the industry which is listed in Hong Kong through the establishment of a jointly control entity. Relationships with other new business partners were also established to lay down a solid foundation for the future development of the Group.

### OUTLOOK

The Group will continue to strengthen its technological development to maintain its leadership position in KM in the PRC. The Group will improve its product development in line with the changing market demand, thereby enhancing its efficiency in commercialisation and expanding its market share.



## Management Discussion and Analysis

Moreover, it will continue to work closely with its business partners to extend its customers base and expand its scope of operations. In particular, the Group has entered into an acquisition agreement on 19th March 2004 to acquire an aggregate of approximately 51.43% equity interest in Unlimited Business Opportunity Communication Technology Co., Ltd. ("UBO"). The Directors believe that opportunities and customer base for value-added services in the mobile communication industry of the PRC are enormous and the business of UBO has good potential since UBO is a professional technology and service provider of voice portal in communication. The Directors further believe that there can be synergy between the Group's business and those of UBO and the development of such business will provide the Group with an opportunity to explore the voice-driven techniques business by employing its voice search engine technology into the voice portal of UBO and thus lead to a substantial increase in the Group's revenues and profits in the coming years. Details of the transaction have been disclosed in the circular of the Company dated 19th March 2004.

### SEGMENTAL INFORMATION

KM products were the core business segment of the Group, of which non-structural knowledge integration systems accounted for approximately 74.06% (2002: 72.61%). On the other hand, the Group's turnover all came from China, representing 100% (2002: 96.36%) of the total turnover. The details are set out in note 5 to the financial statements.

### EMPLOYEES

As at 31st December 2003, the Group had 138 (31st December 2002: 143) full time employees.

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

The staff costs, including directors' remuneration, of the Group for the year ended 31st December 2003 totalled HK\$5,360,000 (2002: HK\$11,671,000), representing a decrease of 54.07%. The major reason is tightened cost control of the Company amid the unfavourable business environment. Salaries of certain staff were cut and the number of staff decreased during the period of the outbreak of SARS while directors' remuneration were substantially reduced.

### CAPITAL STRUCTURE

Up to 31st December 2003, there had been no change in the capital structure of the Company. On 16th January 2004, the Company issued 185,810,000 new shares, representing 20% of its issued share capital prior to such issue. Up to 23rd February 2004, 92,909,000 share options had been exercised. As a result, the total issued shares of the Company increased to 1,207,809,000.



## Management Discussion and Analysis

### SIGNIFICANT INVESTMENTS

In October 2003, the Group invested RMB5,000,000 (equivalent to approximately HK\$4,673,000) to establish Ningbo Donghai Linefan Technology Company Limited (寧波東海藍帆科技有限公司) jointly controlled with Sinopec Zhenhai Refining & Chemical Company Limited.

### 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 and disclosed above.

### CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

There was no charge on the Group's assets and no significant contingent liabilities as at 31st December 2003.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

All of the Group's assets, liabilities and transactions are denominated either in Hong Kong dollars or Renminbi (RMB). As the exchange rate of HK\$ against RMB has been stable for the year under review, so the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. 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 set out in the Prospectus in comparison with the actual progress:

### **Actions to be taken for the year ended 31st December 2003 as disclosed in the Prospectus**

### **Actual Progress**

#### **Development of Products/Services**

##### *KM Systems*

- |    |   |                                |
|----|---|--------------------------------|
| 1. | Non-structural knowledge integration systems  |                                |
|    | a. Release LF e-Centre Enterprise   | Completed                      |
|    | b. Conduct in-house testing of LF Information Wizard (藍帆信息精靈)                                 | Completed                      |
|    | c. Conduct in-house testing of LF Information Assistant (藍帆信息助理)                              | Completed                      |
|    | d. Release LF e-Centre 2.0 Beta   | Postponed due to market demand |
| 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 system integration and consulting services development for ADMS                   | Consistent with the Prospectus |
|    | c. Development of support services for ADMS   | Consistent with the Prospectus |

##### *KM related network application systems*

- |    |   |                   |
|----|---|-------------------|
| 1. | Release LF e-Media 2.0 Beta                   | Under development |
| 2. | Release Identity Verification System 1.0 Beta | Completed         |
| 3. | Continue to upgrade the kernel of LF Chat     | Under development |



## Comparison of Implementation Plans with Actual Progress

### Geographical Expansion

#### *KM systems*

1. Non-structural knowledge integration systems and KM related network systems
  - a. Establish sales and distribution networks and technical support teams in Chongqing and Xian Postponed due to changes in marketing plan
2. Structural information integration and analysis systems
  - a. Establish sales and distribution networks in other locations in China (such as Shanghai and Guangzhou) Completed

### Sales, Marketing and Business Development

#### *KM systems*

1. Non-structural knowledge integration systems and KM related network systems
  - a. Expand its market coverage through establishing business relationships with local sales and distribution agents in Beijing, Shanghai, Guangzhou, Xian, Chongqing and other major cities in China Ningbo, Zhejiang and Jinan, Shandong
  - b. Organise product roadshows in the major cities in China Beijing, Shanghai and Ningbo
2. Structural information integration and analysis systems
  - a. Continue to organise seminars jointly with business partners concerning system integration and consulting services for ADMS Consistent with the Prospectus
  - b. Continue to arouse international brandname awareness through press conferences, conventions and trade shows Consistent with the Prospectus
  - c. Step up the sales and promotional activities in Shanghai Consistent with the Prospectus
  - d. Establish horizontal distribution channels and third-party specialised distributor network in other locations in China, such as Shanghai and Guangzhou Shanghai, Ningbo





## Comparison of Implementation Plans with Actual Progress

### Enhancement of Research and Development Capabilities

#### *KM systems*

- |    |   |                                |
|----|---|--------------------------------|
| 1. | Structural knowledge integration systems  |                                |
| a. | Continue to develop the basic platform of LF e-Centre into independent middleware compatible with other applications                        | Consistent with the Prospectus |
| b. | Develop Chinese language information pick-up technology   | Under development              |
| c. | Develop global web-based information compression and storage technology   | Under development              |
| d. | Develop applications based on natural language processing technologies  | Under development              |
| e. | Develop multi-media information sharing technology  | Postponed                      |
| 2. | Structural information integration and analysis systems   |                                |
| a. | Complete the R&D on software applications for mobile computers  | Postponed                      |
| b. | Continue the market research on mobile computer applications for data processing, data analysis and broadband data communication networking | Consistent with the Prospectus |

#### *KM related network systems*

- |  |  |                                |
|--|--|--------------------------------|
|  | Continue to enhance system performance | Consistent with the Prospectus |
|--|--|--------------------------------|



## Use of Proceeds from Issuance of New Shares

The actual net proceeds from the placement on 5th February 2002 was approximately HK\$38,000,000. During the period from February 2002 to 31 December 2002 HK\$12,200,000 has been spent and for the year ended 31st December 2003 HK\$11,070,000 of the actual net proceeds has been spent. Details of utilization of fundings from the actual net proceeds versus that envisaged in the Prospectus for the year ended 31st December 2003 are as follows:

|   | <b>Proposed<br/>total fundings<br/>required from<br/>net proceeds</b><br><i>HK\$'million</i> | <b>Proposed<br/>fundings required<br/>for the year ended<br/>31 December 2003</b><br><i>HK\$'million</i> | <b>Actual fundings<br/>spent for the<br/>year ended<br/>31 December 2003</b><br><i>HK\$'million</i> |
|---|--|--|---|
| For products/service development<br>for the advancement of the Group's existing<br>KM products and the commencement<br>of new product design        | 3.00   | 1.1  | 1.12  |
| For enhancement of R&D capabilities<br>for continuing the R&D of new KM systems<br>and its related products for increasing<br>the R&D professionals | 11.00  | 4.0  | 4.03  |
| For sales, marketing and business development   | 9.80   | 3.4  | 2.49  |
| For geographical expansion  | 5.20   | 1.8  | 0.93  |
| For equipment and facilities for upgrading<br>the Group's computer software, hardware<br>and management information system                          | 3.50   | 1.0  | 2.5   |
| For general working capital of the Group  | 2.50   | –  | –   |
|   | <u>35.00</u>   | <u>11.30</u>   | <u>11.07</u>  |



## Report of the Directors

The directors of the Company are pleased to present the annual report and the audited financial statements for the year ended 31st December 2003.

### **CORPORATE REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of Cayman Islands on 30th November 2000. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") upon the completion of the Group Reorganisation on 24th January, 2002.

Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 28th January, 2002.

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

### **PRINCIPAL ACTIVITY**

The Company is an investment holding company. The principal activities of its subsidiaries, associates and a jointly controlled entity are set out in notes 14, 15 and 16 respectively to the financial statements.

### **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 26.

The directors of the Company do not recommend the payment of a final dividend in respect of year ended 31st December 2003 (2002: NIL).

### **FINANCIAL SUMMARY**

A summary of the published results and assets and liabilities of the Group for the last financial year is set out on page 61 in the annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

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



## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 55% and approximately 91% of the Group's turnover, respectively, and the largest and the five largest suppliers account for approximately 56% and 97% of the Group's cost of sales respectively for the year ended 31st December, 2003. None of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the customers or suppliers disclosed above.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company are set out in note 24 to the financial statement and the consolidated statement of changes in equity of the Group on page 29.

### SHARE OPTIONS

On 24th 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 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 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 unless approved by the shareholders of the Company. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24th January, 2002.



## Report of the Directors

Details of the options granted since the adoption of the Share Option Scheme up to 31st December, 2003 were as follows :

|                                   | Date of grant | No. of options granted | Exercise price | Exercisable period    | No. of options exercised during the year | No. of options lapsed during the year | No. of options held as at 31 December 2003 |
|-----------------------------------|---------------|------------------------|----------------|-----------------------|--|---------------------------------------|--|
| Selected Employees (in aggregate) | 15/11/2002    | 92,900,000             | HK\$0.183      | 15/11/2002–14/11/2005 | Nil                                      | Nil                                   | 92,900,000                                 |
| Wang Ya Hong                      | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Qin Chuanjun                      | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Li Na                             | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Wang Pu                           | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Zuo Na                            | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Shi Lei                           | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Li Jun                            | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Meng Qingshan                     | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Han Xu                            | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Zhang Wen Yan                     | 27/1/2004     | 9,000,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |
| Wang Ling                         | 27/1/2004     | 2,909,000              | HK\$0.035      | 27/01/2004–23/01/2011 | Nil                                      | Nil                                   | Nil  |

Note : An aggregate of 92,909,000 options have been exercised by option holders since 31st December, 2003 up to 31st March, 2004.



## Report of the Directors

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 has almost been 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 2003 annual report.

The directors are of the view that 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.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

#### Executive Directors:

|                  |                                    |
|------------------|------------------------------------|
| Zhu Zhaofa       |                                    |
| Hung Kwok Wa     | (retired on 23rd April, 2003)      |
| Ma Gui Fang      |                                    |
| Xu Wen Bo        | (appointed on 30th January, 2003)  |
| Jiang Jian Sheng | (appointed on 17th November, 2003) |
| Zhu Guang Bo     | (appointed on 9th March, 2004)     |

#### Non-executive Directors:

|             |                                   |
|-------------|-----------------------------------|
| Gao Xin Min |                                   |
| Wang Limin  | (resigned on 17th November, 2003) |

#### Independent Non-executive Directors

Hu Wei  
Chan, Peter Yat Tung

In accordance with Article 87 of the Company's articles of association, Mr. Zhu Zhaofa, Mr. Gao XinMin, and Mr. Hu Wei will retire by rotation and will not offer themselves for re-election at the forthcoming annual general meeting.



## Report of the Directors

In accordance with Article 86 of the Company's articles of association, Mr. Jiang Jian Sheng and Mr. Zhu Guang Bo, being directors appointed by the directors of the Company after the Company's last annual general meeting held on 23rd April 2003, will hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment as directors.

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.

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years and which will continue thereafter until terminated by either party by giving to the other not less than three months' advance written notice of termination. Mr. Zhu Zhaofa commenced the service agreement from 17th September, 2001, Ms. Ma Gui Fang commenced from 13th August, 2003, Mr. Xu Wen Bo commenced from 30th January, 2003, Mr. Jiang Jian Sheng commenced from 17th November, 2003 and Mr. Zhu Guang Bo commenced from 9th March, 2004.

According to a written resolution of the Board of Directors of the Company, the director's remuneration of Mr. Zhu Zhaofa was substantially reduced from May, 2003.

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

### **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.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or children under 18 years of age, nor were any such rights exercised by them, nor was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.





## Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December 2003, the interest of the directors and the chief executives of the Company in the Shares, 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 7 and 8 of Part XV of the SFO (including interests of 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:

#### Long positions

| Name of director | No of shares held  |                  |                        |                 |
|------------------|--------------------|------------------|------------------------|-----------------|
|                  | Personal interests | Family interests | Corporate interests    | Other interests |
| Mr. Zhu Zhaofa   | –                  | –                | 10,210,000<br>(Note 1) | –               |

#### Note:

1. These shares are registered in the name of Capital Shares Group Limited which is beneficially-owned by Mr. Zhu Zhaofa and Ms. Xue Wanjuan (spouse of Mr. Zhu Zhaofa), as to 83.85% and 16.15% respectively. Therefore, Mr. Zhu Zhaofa is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited.
2. Save as disclosed above, as at 31st December, 2003, none of the directors and their associates, had any interest or short position in any shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests of 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, to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

### 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.



## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the following persons had an interest or short position in the shares and underlying share 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 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   | Capacity                       | Number of Shares | Approximate percentage of holding |
|--|--------------------------------|------------------|-----------------------------------|
| Success Element Holdings Limited ( <i>Note 1</i> ) | Beneficial owner               | 185,844,943      | 20.00%                            |
| Mr. Li Hui   | Held by controlled corporation | 185,844,943      | 20.00%                            |
| Tradeweb Associated Limited ( <i>Note 2</i> )      | Beneficial owner               | 60,620,178       | 6.52%                             |
| Ms. Chen Xue Mu                                    | Held by controlled corporation | 60,620,178       | 6.52%                             |
| Webway Finance Limited ( <i>Note 3</i> )           | Beneficial owner               | 55,000,000       | 5.92%                             |
| Ms. Li Suqin                                       | Held by controlled corporation | 55,000,000       | 5.92%                             |

#### Notes:

1. Success Element Holdings Limited ("SEHL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Li Hui.
2. Tradeweb Associates Limited ("TAL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Ms. Chen Xue Mu.
3. Webway Finance Limited ("WFL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Ms. Li Suqin.

Save as disclosed above, as at 31st December, 2003, no other persons had an interest or short position in the shares and underlying share of the Company or any of its associated corporations were directly or indirectly interested in 5% or more of the issued share capital of the Company.

### SPONSOR'S INTERESTS

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31st December, 2003, neither the Sponsor, nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any 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.



## Report of the Directors

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

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

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

### **CONNECTED AND RELATED PARTY TRANSACTION**

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.

### **COMPETING INTERESTS**

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

### **BENEFIT SCHEME**

The Group's subsidiaries in the PRC, 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 contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31st December, 2003 were based on 20%, 20% and 22.5% (2002: 19%, 30% 12.5%), respectively, of the average wages of workers in Beijing, Wuhan and Shanghai (2002: Beijing, Wuhan and Shanghai), the cities where the Group's PRC's staff are located, and amounted to approximately HK\$120,000 (2002: HK\$34,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. The Group's contribution to the MPF amounted to approximately HK\$113,000 (2002: HK\$123,000).

### **PRE-EMPTIVE RIGHTS**

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

### **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

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



## Report of the Directors

### AUDIT COMMITTEE

The Company established an audit committee on 31st July 2001 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The 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 comprise Doctor Chan, Peter Yat Tung and Mr. Hu Wei, who are the independent non-executive directors of the Company. They have conducted four times of the meeting during the year, usually one or two business days before the Board of Directors to approve the financial results. The Group's audited results for the year ended 31st December 2003 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.

### AUDITORS

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

By Order of the Board

**Xu Wen Bo**

*Chairman*

23rd April 2004



## 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  
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**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 26 to 60 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **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 31st December, 2003 and of the loss 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  
23rd April, 2004



## Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

|   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|-------|------------------|------------------|
| Turnover  | 4     | 14,421           | 51,024           |
| Cost of sales   |       | (5,380)          | (3,958)          |
| Gross profit  |       | 9,041            | 47,066           |
| Other operating income  |       | 482              | 239              |
| Distribution costs  |       | (2,352)          | (1,029)          |
| Administrative expenses   |       | (34,295)         | (27,187)         |
| Amortisation of goodwill  |       | (489)            | (428)            |
| Impairment loss recognised in respect of goodwill on subsidiaries |       | (3,818)          | –                |
| (Loss) profit from operations                                     | 6     | (31,431)         | 18,661           |
| Interest on bank borrowings                                       |       | (77)             | (7)              |
| Share of results of associates                                    |       | (1,640)          | (477)            |
| Share of result of a jointly controlled entity                    |       | 13               | –                |
| Loss on disposal of subsidiaries                                  | 27    | (127)            | (2,199)          |
| Impairment loss recognised in respect of goodwill on an associate |       | (4,351)          | –                |
| (Loss) profit before taxation                                     |       | (37,613)         | 15,978           |
| Income tax expense  | 9     | –                | (414)            |
| (Loss) profit before minority interests                           |       | (37,613)         | 15,564           |
| Minority interests  |       | 582              | 790              |
| (Loss) profit for the year  |       | (37,031)         | 16,354           |
| Dividend  | 10    | –                | –                |
| (Loss) earnings per share   |       |                  |                  |
| Basic (HK cents)  | 11    | (3.99)           | 1.91             |
| Diluted (HK cents)  |       | N/A              | 1.91             |

**Consolidated Balance Sheet**

AT 31ST DECEMBER, 2003

|   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                   |       |                  |                  |
| Property, plant and equipment               | 12    | 3,782            | 7,186            |
| Intangible asset                            | 13    | 10,158           | –                |
| Interests in associates                     | 15    | 105              | 6,123            |
| Interest in a jointly controlled entity     | 16    | 4,704            | –                |
| Investment in securities                    | 17    | –                | –                |
| Goodwill                                    | 18    | –                | 4,327            |
|   |       | <b>18,749</b>    | 17,636           |
| <b>CURRENT ASSETS</b>                       |       |                  |                  |
| Inventories                                 | 19    | 94               | 4,081            |
| Trade receivables                           | 20    | 7,610            | 17,977           |
| Other receivables, deposits and prepayments | 21    | 19,390           | 13,060           |
| Amount due from an associate                | 22    | 2,064            | 1,885            |
| Cash and bank balances                      |       | 579              | 30,847           |
|   |       | <b>29,737</b>    | 67,850           |
| <b>CURRENT LIABILITIES</b>                  |       |                  |                  |
| Other payables and accrued charges          |       | 4,371            | 4,343            |
| Short-term bank borrowings – unsecured      |       | 1,063            | –                |
| Income tax payable                          |       | –                | 414              |
|   |       | <b>5,434</b>     | 4,757            |
| <b>NET CURRENT ASSETS</b>                   |       |                  |                  |
|   |       | <b>24,303</b>    | 63,093           |
|   |       | <b>43,052</b>    | 80,729           |
| <b>CAPITAL AND RESERVES</b>                 |       |                  |                  |
| Share capital                               | 23    | 9,291            | 9,291            |
| Reserves                                    |       | 33,761           | 71,002           |
|   |       | <b>43,052</b>    | 80,293           |
| <b>MINORITY INTEREST</b>                    |       |                  |                  |
|   |       | –                | 436              |
|   |       | <b>43,052</b>    | 80,729           |

The financial statements on pages 26 to 60 were approved and authorised for issue by the Board of Directors on 23rd April, 2004 and are signed on its behalf by:

**Zhu Zhaofa**  
Director

**Ma Gui Fang**  
Director





## Balance Sheet

AT 31ST DECEMBER, 2003

|  | <i>Notes</i> | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000 |
|--|--------------|--------------------------------|------------------|
| <b>NON-CURRENT ASSETS</b>              |              |                                |                  |
| Investments in subsidiaries            | 14           | <b>26,074</b>                  | 30,074           |
| Investment in securities               | 17           | –                              | –                |
|  |              | <b>26,074</b>                  | 30,074           |
| <b>CURRENT ASSETS</b>                  |              |                                |                  |
| Amounts due from subsidiaries          | 22           | <b>27,163</b>                  | 31,729           |
| Bank balance                           |              | <b>3</b>                       | 96               |
|  |              | <b>27,166</b>                  | 31,825           |
| <b>CURRENT LIABILITIES</b>             |              |                                |                  |
| Accrued charges                        |              | <b>1,568</b>                   | 778              |
| Short term bank borrowings – unsecured |              | <b>1,063</b>                   | –                |
|  |              | <b>2,631</b>                   | 778              |
| <b>NET CURRENT ASSETS</b>              |              |                                |                  |
|  |              | <b>24,535</b>                  | 31,047           |
| <b>50,609</b>                          |              |                                |                  |
| <b>CAPITAL AND RESERVES</b>            |              |                                |                  |
| Share capital                          | 23           | <b>9,291</b>                   | 9,291            |
| Reserves                               | 24           | <b>41,318</b>                  | 51,830           |
|  |              | <b>50,609</b>                  | 61,121           |

**Zhu Zhaofa**  
*Director*

**Ma Gui Fang**  
*Director*



## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2003

|   | Share<br>capital      | Share<br>premium | Capital<br>reserve    | Special<br>reserve    | PRC<br>statutory<br>reserve | Exchange<br>reserve | Accumulated<br>profits | Total         |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------------|---------------------|------------------------|---------------|
|   | HK\$'000<br>(note 23) | HK\$'000         | HK\$'000<br>(note 24) | HK\$'000<br>(note 24) | HK\$'000<br>(note 24)       | HK\$'000            | HK\$'000               | HK\$'000      |
| At 1st January, 2002  | 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<br>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<br>in income statement) | -                     | -                | -                     | -                     | -                           | 173                 | -                      | 173           |
| Profit for the year   | -                     | -                | -                     | -                     | -                           | -                   | 16,354                 | 16,354        |
| Transfer to PRC statutory reserve                           | -                     | -                | -                     | -                     | 10,135                      | -                   | (10,135)               | -             |
| At 31st December, 2002                                      | 9,291                 | 28,408           | 3,970                 | 3,324                 | 11,623                      | 228                 | 23,449                 | 80,293        |
| Exchange adjustment (not recognised<br>in income statement) | -                     | -                | -                     | -                     | -                           | (210)               | -                      | (210)         |
| Loss for the year   | -                     | -                | -                     | -                     | -                           | -                   | (37,031)               | (37,031)      |
| At 31st December, 2003                                      | <u>9,291</u>          | <u>28,408</u>    | <u>3,970</u>          | <u>3,324</u>          | <u>11,623</u>               | <u>18</u>           | <u>(13,582)</u>        | <u>43,052</u> |



## Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

|  | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|-------|------------------|------------------|
| (Loss) profit from operations  |       | <b>(31,431)</b>  | 18,661           |
| Adjustments for:   |       |                  |                  |
| Amortisation of goodwill   |       | <b>489</b>       | 428              |
| Allowance for bad and doubtful debts   |       | <b>10,076</b>    | 155              |
| Depreciation   |       | <b>1,898</b>     | 1,653            |
| Amortisation of intangible asset   |       | <b>2,337</b>     | –                |
| Interest income  |       | <b>(159)</b>     | (88)             |
| Loss on disposal of property, plant and equipment  |       | <b>1,520</b>     | 841              |
| Impairment loss on investment in securities  |       | <b>250</b>       | –                |
| Impairment loss recognised in respect of goodwill on subsidiaries                            |       | <b>3,818</b>     | –                |
| Operating cash flows before movements in working capital                                     |       | <b>(11,202)</b>  | 21,650           |
| Decrease (increase) in inventories   |       | <b>4,062</b>     | (4,081)          |
| Decrease (increase) in trade receivables   |       | <b>564</b>       | (10,511)         |
| (Increase) decrease in other receivables, deposits and prepayments                           |       | <b>(6,444)</b>   | 3,758            |
| Decrease in trade payables   |       | –                | (548)            |
| (Decrease) increase in other payables and accrued charges                                    |       | <b>(5,836)</b>   | 1,641            |
| Cash (used in) generated from operations   |       | <b>(18,856)</b>  | 11,909           |
| Interest received  |       | <b>159</b>       | 88               |
| Interest paid  |       | –                | (7)              |
| PRC income tax paid  |       | <b>(414)</b>     | –                |
| <b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>                                |       | <b>(19,111)</b>  | 11,990           |
| <b>INVESTING ACTIVITIES</b>  |       |                  |                  |
| Purchase of property, plant and equipment  |       | <b>(99)</b>      | (6,563)          |
| Purchase of intangible asset   |       | <b>(5,329)</b>   | –                |
| Investment in a jointly controlled entity  |       | <b>(4,691)</b>   | –                |
| Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary       | 26    | <b>(1,580)</b>   | –                |
| Net (outflow) inflow of cash and cash equivalents in respect of the disposal of subsidiaries | 27    | <b>(343)</b>     | 152              |
| Acquisition of investment in securities  |       | <b>(250)</b>     | –                |
| Advance to an associate  |       | <b>(179)</b>     | (1,885)          |
| Proceeds from disposal of property, plant and equipment                                      |       | <b>4</b>         | –                |
| Acquisition of associates  |       | –                | (6,601)          |
| Acquisition of additional interest in a subsidiary   |       | –                | (3,336)          |
| Repayment from shareholders  |       | –                | 47               |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   |       | <b>(12,467)</b>  | (18,186)         |

**Consolidated Cash Flow Statement**

FOR THE YEAR ENDED 31ST DECEMBER, 2003

|   | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000 |
|---|--------------------------------|------------------|
| FINANCING ACTIVITIES                                    |                                |                  |
| Bank borrowings raised                                  | <b>2,500</b>                   | –                |
| Contributions from minority interests                   | <b>468</b>                     | 1,132            |
| Repayment of bank borrowings                            | <b>(1,437)</b>                 | –                |
| Interest paid on bank borrowings                        | <b>(77)</b>                    | –                |
| Issue for new shares                                    | –                              | 52,800           |
| Share issue expenses                                    | –                              | (15,108)         |
| Repayment to shareholders                               | –                              | (3,929)          |
| Repayments to directors                                 | –                              | (14)             |
|   | <hr/>                          | <hr/>            |
| NET CASH GENERATED FROM<br>FINANCING ACTIVITIES         | <b>1,454</b>                   | 34,881           |
|   | <hr/>                          | <hr/>            |
| NET (DECREASE) INCREASE IN CASH AND<br>CASH EQUIVALENTS | <b>(30,124)</b>                | 28,685           |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES                 | <b>(144)</b>                   | 166              |
| CASH AND CASH EQUIVALENTS AT<br>BEGINNING OF THE YEAR   | <b>30,847</b>                  | 1,996            |
|   | <hr/>                          | <hr/>            |
| CASH AND CASH EQUIVALENTS AT<br>END OF THE YEAR         | <b>579</b>                     | 30,847           |
|   | <hr/> <hr/>                    | <hr/> <hr/>      |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 1. GENERAL

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

Pursuant to a group reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the group (the "Group") formed after the completion of the group reorganisation on 24th January, 2002.

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") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA").

The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange on 5th 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 HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the HKSA, the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

#### **SSAP 12 (Revised) Income taxes**

In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision has to be made for deferred tax using the income statement liability method, i.e. a liability has to be recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior periods. Accordingly, no prior period adjustment has been required.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 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 31st 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.

#### 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, less any identified impairment loss.

#### 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 presented as a deduction from the carrying value of the associate. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identified acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

#### Interests in subsidiaries

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

#### Interests 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, interests in associates are stated at the Group's share of the net assets of the associates on acquisition plus the goodwill/less the negative goodwill 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 31ST DECEMBER, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Interest in a jointly controlled entity**

Joint venture arrangements which involved the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

#### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

#### **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.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **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 items 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.

#### **Intangible asset**

The intangible asset of the Group comprises computer software and is measured initially at cost and amortised on a straight-line basis over the estimated useful lives of 3 years.

#### **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**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.





## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation** *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **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 31ST DECEMBER, 2003

### 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**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 4. TURNOVER

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| KM Systems  |                  |                  |
| – Non-structural knowledge integration systems            | 10,680           | 37,047           |
| – Structural information integration and analysis systems | 1,988            | 7,585            |
| KM related network application systems                    | 986              | 3,163            |
| Other system and software related services                | 767              | 3,229            |
|   | <b>14,421</b>    | <b>51,024</b>    |

### 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

The Group's geographical segment information based on location of assets is similar to that of the location of its customers. An analysis of the Group's operations by geographical markets is as follows:

|   | External sales by<br>geographical market |                  | Segment result   |                  |
|---|--|------------------|------------------|------------------|
|   | 2003<br>HK\$'000                         | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Hong Kong   | –  | 1,858            | –                | 798              |
| PRC other than Hong Kong  | 14,421                                   | 49,166           | (31,431)         | 17,863           |
|   | <b>14,421</b>                            | <b>51,024</b>    | <b>(31,431)</b>  | <b>18,661</b>    |
| Interest on bank borrowings   |  |                  | (77)             | (7)              |
| Share of results of associates  |  |                  | (1,640)          | (477)            |
| Share of result of a jointly<br>controlled entity                       |  |                  | 13               | –                |
| Loss on disposal of subsidiaries  |  |                  | (127)            | (2,199)          |
| Impairment loss recognised<br>in respect of goodwill<br>on an associate |  |                  | (4,351)          | –                |
| Income tax expense  |  |                  | –                | (414)            |
| (Loss) profit before minority<br>interests                              |  |                  | <b>(37,613)</b>  | <b>15,564</b>    |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

|  | Hong Kong    |          | PRC other<br>than Hong Kong |          | Consolidated  |          |
|--|--------------|----------|-----------------------------|----------|---------------|----------|
|  | 2003         | 2002     | 2003                        | 2002     | 2003          | 2002     |
|  | HK\$'000     | HK\$'000 | HK\$'000                    | HK\$'000 | HK\$'000      | HK\$'000 |
| <b>ASSETS</b>  |              |          |                             |          |               |          |
| Segment assets                                       | <b>2,281</b> | 1,499    | <b>39,053</b>               | 40,850   | <b>41,334</b> | 42,304   |
| Unallocated corporate assets                         |              |          |                             |          | <b>7,152</b>  | 43,182   |
| Consolidated total assets                            |              |          |                             |          | <b>48,486</b> | 85,486   |
| <b>LIABILITIES</b>                                   |              |          |                             |          |               |          |
| Segment liabilities                                  | <b>2,372</b> | 1,142    | <b>1,999</b>                | 3,201    | <b>4,371</b>  | 4,343    |
| Unallocated corporate liabilities                    |              |          |                             |          | <b>1,063</b>  | 414      |
|  |              |          |                             |          | <b>5,434</b>  | 4,757    |
| <b>OTHER INFORMATION</b>                             |              |          |                             |          |               |          |
| Allowance for bad and doubtful debts                 | –            | –        | <b>10,076</b>               | 155      | <b>10,076</b> | 155      |
| Amortisation of goodwill                             | –            | 211      | <b>969</b>                  | 217      | <b>969</b>    | 428      |
| Capital expenditures                                 | <b>18</b>    | 1,307    | <b>12,570</b>               | 5,256    | <b>12,588</b> | 6,563    |
| Depreciation   | <b>100</b>   | 239      | <b>1,798</b>                | 1,414    | <b>1,898</b>  | 1,653    |
| Amortisation of intangible asset                     | –            | –        | <b>2,337</b>                | –        | <b>2,337</b>  | –        |
| Impairment loss recognised in<br>respect of goodwill | –            | –        | <b>8,169</b>                | –        | <b>8,169</b>  | –        |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 6. (LOSS) PROFIT FROM OPERATIONS

|  | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (Loss) profit from operations has been arrived at after charging:      |                         |                         |
| Directors' remuneration ( <i>note 7</i> )                              |                         |                         |
| – fees   | 33                      | 416                     |
| – salaries and other emoluments  | 837                     | 5,840                   |
| – retirement benefits scheme contributions                             | 30                      | 43                      |
| Retirement benefits scheme contributions (excluding directors)         | 203                     | 114                     |
| Other staff costs  | 4,257                   | 5,258                   |
|  | <b>5,360</b>            | 11,671                  |
| Auditors' remuneration   | 511                     | 420                     |
| Allowance for bad and doubtful debts                                   | 10,076                  | 155                     |
| Depreciation   | 1,898                   | 1,653                   |
| Amortisation of intangible asset (included in administrative expenses) | 2,337                   | –                       |
| Impairment loss on investment in securities                            | 250                     | –                       |
| Loss on disposal of property, plant and equipment                      | 1,520                   | 841                     |
| Research and development expenses                                      | 6,503                   | 2,602                   |
| and after crediting:   |                         |                         |
| Interest income from bank deposits                                     | 159                     | 88                      |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 7. DIRECTORS REMUNERATION

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Executive directors:                                 |                  |                  |
| Directors' fees                                      | –                | –                |
| Salaries and other benefits                          | 784              | 4,027            |
| Contributions to retirement benefits pension schemes | 28               | 43               |
| Performance related incentive payments               | –                | 370              |
| Independent non-executive directors:                 |                  |                  |
| Directors' fee                                       | –                | 280              |
| Salaries and other benefits                          | –                | 400              |
| Non-executive directors:                             |                  |                  |
| Directors' fee                                       | 33               | 136              |
| Salaries and other benefits                          | 53               | 1,000            |
| Contributions to retirement benefits pension schemes | 2                | –                |
| Total emoluments                                     | <u>900</u>       | <u>6,256</u>     |

Details of emoluments by individuals are as follows:

|            | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|------------|------------------|------------------|
| Director A | 522              | 1,743            |
| Director B | 84               | 1,254            |
| Director C | 55               | 268              |
| Director D | –                | 1,160            |
| Director E | 206              | 71               |
| Director F | –                | 340              |
| Director G | –                | 340              |
| Director H | 33               | 80               |
| Director I | –                | 1,000            |
|            | <u>900</u>       | <u>6,256</u>     |

No directors waived any emoluments for both years.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 8. EMPLOYEE EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2002: four) were directors of the Company whose emoluments are included in the disclosure in note 7 above. The emoluments of the remaining three (2002: one) individuals were as follows:

|   | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Employees                                 |                         |                         |
| – Basic salaries and allowances           | 1,151                   | 810                     |
| – Retirement benefit scheme contributions | 54                      | 12                      |
|   | <u>1,205</u>            | <u>822</u>              |

The emoluments of each of the above employees were less than HK\$1,000,000 during each of the year ended 31st December 2003 and 2002.

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. INCOME TAX EXPENSE

The Group's primary operations are carried out in the PRC. The general tax rate for corporation in the PRC is 33%. However, 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 31st December, 2001. No provision for PRC income tax has been made for the year as Beijing Linefan has incurred a loss. 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 PRC income tax has been made for the year as Beijing Silver-Soft incurred a loss. For the other PRC subsidiaries of the Group, they have incurred losses 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.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 9. INCOME TAX EXPENSE (Continued)

Certain tax losses in the year 2003 and 2002 cannot be carried forward. At the balance sheet date, the Group has unused tax losses of HK\$6,514,000 (2002: HK\$847,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2008.

The income tax for the year can be reconciled to the (loss) profit per the income statement as follows:

|  | 2003            |               | 2002     |        |
|--|-----------------|---------------|----------|--------|
|  | HK\$'000        | %             | HK\$'000 | %      |
| (Loss) profit before taxation  | <b>(37,613)</b> |               | 15,978   |        |
| Tax at the domestic income tax rate of 33% (2002: 33%)                       | <b>(12,412)</b> | <b>(33.0)</b> | 5,273    | 33.0   |
| Tax effect of expenses that are not deductible in determining taxable profit | <b>4,817</b>    | <b>12.8</b>   | 3,135    | 19.6   |
| Tax effect of income not taxable for tax purpose                             | –               | –             | (11)     | (0.1)  |
| Effect of tax exemptions granted to PRC subsidiaries                         | –               | –             | (10,835) | (67.8) |
| Effect of different tax rates of operating in other jurisdictions            | <b>1,182</b>    | <b>3.1</b>    | 2,996    | 18.7   |
| Utilization of tax loss not previously recognised                            | <b>(6)</b>      | –             | (600)    | (3.7)  |
| Tax effect of tax losses not recognised                                      | <b>6,419</b>    | <b>17.1</b>   | 456      | 2.9    |
| Tax expense and effective tax rate for the year                              | –               | –             | 414      | 2.6    |

### 10. DIVIDEND

No dividend was paid or proposed during 2003, nor has any dividend been proposed since the balance sheet date (2002: Nil).





## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 11. (LOSS) EARNINGS PER SHARE

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

|   | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000   |
|---|--------------------------------|--------------------|
| (Loss) profit for the year and (loss) earnings for the purpose of the basic (loss) earnings per share | <u><b>(37,031)</b></u>         | <u>16,354</u>      |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share         | <b>929,090,000</b>             | 856,158,493        |
| Effect of dilutive potential ordinary shares on options   | <u>–</u>                       | <u>90,314</u>      |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share       | <u><b>929,090,000</b></u>      | <u>856,248,807</u> |

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31st December, 2002 is calculated on the assumption that the group reorganisation and the capitalisation issue of the Company had been effective since 1st January, 2002.

The computation of diluted earnings per share for the year ended 31st December, 2003 does not assume the exercise of the Company's outstanding options as the exercise price of those options is higher than the average market price for shares.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 12. PROPERTY, PLANT AND EQUIPMENT

|  | Leasehold<br>improvements<br><i>HK\$'000</i> | Furniture,<br>fixtures and<br>equipment<br><i>HK\$'000</i> | Computers,<br>network<br>and related<br>equipment<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|--|--|--|--------------------------------------|--------------------------|
| <b>THE GROUP</b>                       |  |  |  |                                      |                          |
| COST                                   |  |  |  |                                      |                          |
| At 1st January, 2003                   | 1,361  | 1,781  | 6,998  | 305                                  | 10,445                   |
| Exchange adjustments                   | (2)  | (6)  | (34)   | (2)                                  | (44)                     |
| Additions                              | 27   | 63   | 9  | –                                    | 99                       |
| Disposal of subsidiaries               | –  | (56)   | (8)  | –                                    | (64)                     |
| Disposals                              | (983)  | (104)  | (1,014)  | –                                    | (2,101)                  |
| <b>At 31st December, 2003</b>          | <b>403</b>                                   | <b>1,678</b>   | <b>5,951</b>   | <b>303</b>                           | <b>8,335</b>             |
| DEPRECIATION                           |  |  |  |                                      |                          |
| At 1st January, 2003                   | 240  | 413  | 2,560  | 46                                   | 3,259                    |
| Exchange adjustments                   | (1)  | (3)  | (15)   | –                                    | (19)                     |
| Provided for the year                  | 93   | 348  | 1,396  | 61                                   | 1,898                    |
| Eliminated on disposal of subsidiaries | –  | (7)  | (1)  | –                                    | (8)                      |
| Eliminated on disposals                | (164)  | (17)   | (396)  | –                                    | (577)                    |
| <b>At 31st December, 2003</b>          | <b>168</b>                                   | <b>734</b>   | <b>3,544</b>   | <b>107</b>                           | <b>4,553</b>             |
| NET BOOK VALUES                        |  |  |  |                                      |                          |
| <b>At 31st December, 2003</b>          | <b>235</b>                                   | <b>944</b>   | <b>2,407</b>   | <b>196</b>                           | <b>3,782</b>             |
| At 31st December, 2002                 | 1,121  | 1,368  | 4,438  | 259                                  | 7,186                    |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 13. INTANGIBLE ASSET

|                               | <b>Computer<br/>software</b><br><i>HK\$'000</i> |
|-------------------------------|---|
| <hr/>                         |   |
| <b>THE GROUP</b>              |   |
| COST                          |   |
| At 1st January, 2003          | –   |
| Additions in the year         | 5,329   |
| Acquisition of a subsidiary   | 7,160   |
|                               | <hr/>   |
| <b>At 31st December, 2003</b> | <b>12,489</b>                                   |
| AMORTISATION                  |   |
| At 1st January, 2003          | –   |
| Provided for the year         | 2,337   |
| Exchange adjustments          | (6)   |
|                               | <hr/>   |
|                               | 2,331   |
|                               | <hr/>   |
| NET BOOK VALUE                |   |
| <b>At 31st December, 2003</b> | <b>10,158</b>                                   |
|                               | <hr/> <hr/>                                     |
| At 31st December, 2002        | –   |
|                               | <hr/> <hr/>                                     |

### 14. INVESTMENTS IN SUBSIDIARIES

|                          | <b>THE COMPANY</b> |                 |
|--------------------------|--------------------|-----------------|
|                          | <b>2003</b>        | 2002            |
|                          | <i>HK\$'000</i>    | <i>HK\$'000</i> |
| <hr/>                    |                    |                 |
| Unlisted shares, at cost | <b>26,074</b>      | 30,074          |
|                          | <hr/> <hr/>        | <hr/> <hr/>     |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries of the Company as at 31st December, 2003 are as follows:

| Name of company  | Legal form of entity         | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Company directly or indirectly | Principal activities  |
|--|------------------------------|---------------------------------------|---|--|---|
| Beijing Linefan Zhihui Technology Co. Ltd. (formerly known as Beijing Hangfan Technology Company Limited)<br>北京藍帆智慧科技有限公司 (formerly known as 北京航帆信息科技有限公司) | Equity joint venture ("EJV") | PRC                                   | RMB1,000,000  | 100%   | Application software provider of non-structural knowledge integration systems and services  |
| Beijing Linefan Silver-Soft Technology Company Limited<br>北京藍帆銀軟科技有限公司 ("Beijing Silver-Soft ")  | EJV                          | PRC                                   | RMB5,000,000  | 100%   | Sale of non-structural and non-structural integrations systems and services   |
| Beijing Linefan Technology Company Limited<br>北京藍帆科技有限公司   | EJV                          | 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<br>北京威派軟件技術有限公司  | EJV                          | PRC                                   | RMB500,000  | 100%   | Research and development, and provision of KM related network application and services  |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 14. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name of company   | Legal form of entity      | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Company directly or indirectly | Principal activities  |
|---|---------------------------|---------------------------------------|---|--|---|
| Chineseroad Incorporated<br>中國之路                          | Limited liability company | The British Virgin Islands ("BVI")    | US\$67,200  | 100%   | Investment holding  |
| Shanghai Hangfan Technology Company Limited<br>上海航帆科技有限公司 | EJV                       | PRC                                   | RMB1,250,000  | 60%  | Sale and implementation of KM related network application system and services                     |
| Wuhan Linefan Technology Company Limited<br>武漢藍帆科技有限公司    | EJV                       | PRC                                   | RMB1,000,000  | 100%   | Sale, development and implementation of non-structural knowledge integration systems and services |
| Wuhan Handu Technology Company Limited<br>武漢漢都科技有限公司      | EJV                       | PRC                                   | RMB500,000  | 100%   | Sale, development and implementation of non-structural knowledge integration systems and services |

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

### 15. INTERESTS IN ASSOCIATES

|                                   | THE GROUP        |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net assets of associates | 206              | 1,370            |
| Goodwill (Note)                   | –                | 4,866            |
| Negative goodwill (Note)          | (101)            | (113)            |
|                                   | <b>105</b>       | <b>6,123</b>     |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 15. INTERESTS IN ASSOCIATES (Continued)

Note:

|                                      | THE GROUP            |                                  |
|--------------------------------------|----------------------|----------------------------------|
|                                      | Goodwill<br>HK\$'000 | Negative<br>goodwill<br>HK\$'000 |
| GROSS AMOUNT                         |                      |                                  |
| At 1st January, 2003                 | 4,933                | (116)                            |
| Exchange adjustments                 | (25)                 | 1                                |
| <b>At 31st December, 2003</b>        | <b>4,908</b>         | <b>(115)</b>                     |
| AMORTISATION AND IMPAIRMENT          |                      |                                  |
| At 1st January, 2003                 | 67                   | (3)                              |
| Exchange adjustments                 | (2)                  | 1                                |
| Amortisation (realised) for the year | 492                  | (12)                             |
| Impairment loss recognised           | 4,351                | –                                |
| <b>At 31st December, 2003</b>        | <b>4,908</b>         | <b>(14)</b>                      |
| CARRYING AMOUNT                      |                      |                                  |
| <b>At 31st December, 2003</b>        | <b>–</b>             | <b>(101)</b>                     |
| At 31st December, 2002               | 4,866                | (113)                            |

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

During the year, the directors of the Company have reviewed the carrying amount of the goodwill arising from acquisition of the associates. Having considered the market condition of the sales and development of software, an impairment loss of HK\$4,351,000 (2002: Nil) has been identified and recognised in the consolidated income statement.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 15. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates at 31st December, 2003 are as follows:

| Name of associate  | Form of business structure | Place of establishment | Proportion of nominal Issued and fully paid registered capital | value of registered capital held by the Group | Principal activity   |
|--|----------------------------|------------------------|--|---|--|
| Beijing Wancaifeiyang Technology Company Limited<br>北京文采飛揚科技<br>有限公司 | Unincorporated             | PRC                    | RMB770,000   | 27%   | Sales, development and implementation of structural and non-structural, integration systems and services |
| Anhui Linefan Yiyang Technology Company Limited<br>安徽藍帆意揚科技<br>有限公司  | Unincorporated             | 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 31ST DECEMBER, 2003

### 16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

|  | THE GROUP        |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net assets of a jointly controlled entity | <b>4,704</b>     | –                |

Details of the Group's jointly controlled entity at 31st December, 2003 is as follows:

| Name of jointly controlled entity                                 | Form of business structure | Place of establishment | Issued and fully paid registered capital | Proportion of nominal value of registered capital held by the Group | Principal activity   |
|---|----------------------------|------------------------|--|---|--|
| Ningbo Donghai Linefan Technology Company Limited<br>寧波東海藍帆科技有限公司 | Unincorporated             | PRC                    | RMB10,000,000                            | 50%   | Sales, development and implementation of software and the provision of systems integration and IT related services |

### 17. INVESTMENT IN SECURITIES

|                           | THE GROUP AND THE COMPANY |                  |
|---------------------------|---------------------------|------------------|
|                           | 2003<br>HK\$'000          | 2002<br>HK\$'000 |
| Unlisted equity interest: |                           |                  |
| Cost                      | <b>250</b>                | –                |
| Less: impairment loss     | <b>(250)</b>              | –                |
|                           | –                         | –                |

During the year, the directors of the Company have reviewed the carrying value of the investment in securities. With reference to the market condition and the financial results of the investee company, an impairment loss of HK\$250,000 (2002: Nil) has been identified and charged to the consolidated income statement.





## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 18. GOODWILL

|  | <b>THE GROUP</b> |
|--|------------------|
|  | <i>HK\$'000</i>  |
| <hr/>  |                  |
| COST   |                  |
| At 1st January, 2003                                 | 4,904            |
| Exchange adjustments                                 | (24)             |
|  | <hr/>            |
| <b>At 31st December, 2003</b>                        | <b>4,880</b>     |
|  | <hr/>            |
| AMORTISATION AND IMPAIRMENT                          |                  |
| At 1st January, 2003                                 | 577              |
| Exchange adjustments                                 | (4)              |
| Provided for the year                                | 489              |
| Provision for impairment loss recognised in the year | 3,818            |
|  | <hr/>            |
| <b>At 31st December, 2003</b>                        | <b>4,880</b>     |
|  | <hr/>            |
| NET BOOK VALUE                                       |                  |
| <b>At 31st December, 2003</b>                        | <b>—</b>         |
|  | <hr/> <hr/>      |
| At 31st December, 2002                               | 4,327            |
|  | <hr/> <hr/>      |

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

During the year, the directors of the Company have reviewed the carrying amount of goodwill arising from acquisition of subsidiaries which are mainly engaged in the sales and development of software. With reference to the market condition and financial performance of the sales and development of software business, an impairment loss of HK\$3,818,000 (2002: Nil) has been identified and recognised in the consolidated income statement.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 19. INVENTORIES

|                           | THE GROUP        |                  |
|---------------------------|------------------|------------------|
|                           | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Finished goods for resale |                  |                  |
| Hardwares                 | 94               | 1,082            |
| Software licenses         | –                | 2,999            |
|                           | <u>94</u>        | <u>4,081</u>     |

As at 31st December, 2003, all the inventories were carried at cost.

As at 31st December, 2002, the hardware amounted to HK\$1,082,000 was carried at their net realisable value.

### 20. TRADE RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers.

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

|            | THE GROUP        |                  |
|------------|------------------|------------------|
|            | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| 0–60 days  | 263              | 10,167           |
| 61–90 days | 1,398            | 2,957            |
| >90 days   | 5,949            | 4,853            |
|            | <u>7,610</u>     | <u>17,977</u>    |

### 21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the amount are deposits of approximately HK\$19,066,000 (2002: Nil) held by two PRC individuals who have been engaged by the Group to assist in certain software development projects of the PRC government authorities. The deposits would be applied as security deposits for bidding for the software development contracts and the working capital of such contracts. In the opinion of the directors, the deposits would be fully recovered whether the bids are successful or not.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 22. AMOUNTS DUE FROM AN ASSOCIATE/SUBSIDIARIES

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

### 23. SHARE CAPITAL

|   | Number<br>of shares  | <i>HK\$'000</i> |
|---|----------------------|-----------------|
| <hr/>   |                      |                 |
| Authorised  |                      |                 |
| At 1st January, 2002  | 3,500,000            | 350             |
| Subdivided into 10 shares of HK\$0.01 each<br>on 24th January, 2002 | 31,500,000           | –               |
| Increase in authorised share capital<br>on 24th January, 2002       | <u>4,965,000,000</u> | <u>49,650</u>   |
| At 31st December, 2002 and 31st December, 2003                      | <u>5,000,000,000</u> | <u>50,000</u>   |
| Issued and fully paid   |                      |                 |
| At 1st January, 2002  | 67,200               | –               |
| Subdivided into 10 shares of HK\$0.01 each<br>on 24th January, 2002 | <u>604,800</u>       | <u>–</u>        |
|   | 672,000              | –               |
| Credit as fully paid up on 24th January, 2002                       | –                    | 7               |
| Issue of shares by way of capitalisation                            | 708,418,000          | 7,084           |
| Issue of shares under the placing on 5th February, 2002             | <u>220,000,000</u>   | <u>2,200</u>    |
| At 31st December, 2002 and 31st December, 2003                      | <u>929,090,000</u>   | <u>9,291</u>    |



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 24. SHARE PREMIUM AND RESERVES

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

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 a group reorganisation in 2002.

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

|   | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Accumulated<br>loss<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---|--|--------------------------|
| THE COMPANY                                     |                                     |   |  |                          |
| At 31st January, 2002                           | –                                   | –   | –                                      | –                        |
| Arising from group reorganisation               | –                                   | 26,067                                    | –                                      | 26,067                   |
| Issue of new shares by way of<br>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)                  |
| At 31st December, 2002                          | 28,408                              | 26,067                                    | (2,645)                                | 51,830                   |
| Loss for the year                               | –                                   | –   | (10,512)                               | (10,512)                 |
| <b>At 31st December, 2003</b>                   | <b>28,408</b>                       | <b>26,067</b>                             | <b>(13,157)</b>                        | <b>41,318</b>            |

The contributed surplus of the Company arose from a group reorganisation in 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 31st December, 2003 represent the aggregate of share premium and contributed surplus less accumulated loss of HK\$41,318,000 (2002: HK\$51,830,000).



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 25. SHARE OPTIONS

The Company has adopted a share option scheme on 24th January, 2002 (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 of directors of the Company 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 initially 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 Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24th January, 2002.

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 15th November, 2002 pursuant to the Share Option Scheme to selected employees of the Group. No options have been exercised up to 31st December, 2003 and 92,900,000 options remain outstanding as at 31st December, 2003.

As the original 10% general limit on the grant of options of the Share Option Scheme has almost been fully utilised in 2002, a refreshment of the 10% general limit was approved at the annual general meeting of the Company held on 23rd 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 has been re-set at 10% of the shares of the Company in issue as at the date of approval of the "refreshed" limit.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 26. ACQUISITION OF A SUBSIDIARY

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Net assets acquired:  |                  |                  |
| Intangible asset  | 7,160            | —                |
| Inventories   | 94               | —                |
| Other receivables, deposits and prepayments   | 190              | —                |
| Cash and bank balances  | 297              | —                |
| Other payables and accrued charges  | (5,864)          | —                |
|   | <hr/>            | <hr/>            |
| Net assets and total consideration  | <b>1,877</b>     | —                |
|   | <hr/> <hr/>      | <hr/> <hr/>      |
| Analysis of the net outflow of cash and cash equivalents<br>in connection with the acquired subsidiary: |                  |                  |
| Cash consideration paid   | (1,877)          | —                |
| Cash and bank balances acquired   | 297              | —                |
|   | <hr/>            | <hr/>            |
| Net outflow of cash and cash equivalents  | <b>1,580</b>     | —                |
|   | <hr/> <hr/>      | <hr/> <hr/>      |

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



## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 27. DISPOSAL OF SUBSIDIARIES

|   | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net assets disposed of:   |                         |                         |
| Property, plant and equipment   | 56                      | 104                     |
| Inventories   | 19                      | –                       |
| Trade receivables   | –                       | 1,994                   |
| Other receivables, deposits and prepayments   | 31                      | 406                     |
| Bank balances and cash  | 387                     | 89                      |
| Trade payables  | –                       | (678)                   |
| Other payables and accrued charges  | –                       | (211)                   |
| Bank overdrafts   | –                       | (241)                   |
| Amount due to a shareholder   | –                       | (1,000)                 |
| Amount due to a director  | –                       | (518)                   |
| Minority interest   | <b>(322)</b>            | 25                      |
|   | <b>171</b>              | (30)                    |
| Elimination of unamortised goodwill   | –                       | 2,229                   |
|   | <b>171</b>              | 2,199                   |
| Loss on disposal  | <b>(127)</b>            | (2,199)                 |
| Total consideration   | <b>44</b>               | –                       |
| Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the disposed subsidiaries: |                         |                         |
| Cash consideration received   | 44                      | –                       |
| Bank balances and cash disposed of  | <b>(387)</b>            | (89)                    |
| Bank overdrafts disposed  | –                       | 241                     |
| Net (outflow) inflow of cash and cash equivalents   | <b>(343)</b>            | 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 31ST DECEMBER, 2003

### 28. OPERATING LEASE COMMITMENT

#### The Group as lessee

|  | THE GROUP    |              |
|--|--------------|--------------|
|  | 2003         | 2002         |
|  | HK\$'000     | HK\$'000     |
| Minimum lease payments paid under operating leases in respect of office premises during the year | <u>1,224</u> | <u>1,938</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  |            |
|---------------------------------------|------------|------------|
|                                       | 2003       | 2002       |
|                                       | HK\$'000   | HK\$'000   |
| Within one year                       | <u>583</u> | <u>522</u> |
| In the second to fifth year inclusive | <u>71</u>  | <u>3</u>   |
|                                       | <u>654</u> | <u>525</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 over the terms of the leases.

### 29. RETIREMENT BENEFITS SCHEME

The Company'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 contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contribution for the year ended 31st December, 2003 were based on 20%, 20% and 22.5% (2002: 19%, 30% and 12.5%), respectively, of the average wages of workers in Beijing, Wuhan and Shanghai, the cities where the Group's PRC's staff are located, and amounted to approximately HK\$120,000 (2002: HK\$34,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. The Group's contribution to the MPF amounted to approximately HK\$113,000 (2002: HK\$123,000).





## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2003

### 30. POST BALANCE EVENTS

- (i) On 16th January, 2004, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with World Develop Limited ("World Develop"), an independent third party. Pursuant to the Subscription Agreement, World Develop agreed to subscribe for 185,810,000 new shares of the Company, representing approximately 16.67% of the enlarged capital, at HK\$0.031 per share. The proceed of approximately HK\$5,760,000 will be applied by the Group to finance the Group's business development relating to voice search engine. The shares were formally allotted on 13th February, 2004 and the shares in issue rank pari passu in all respects with the then existing shares of the Company.
  
- (ii) On 19th March, 2004, Beijing Silver-Soft, a wholly-owned subsidiary of the Company, entered into a conditional agreement (the "Agreement") with 福州數通信息有限公司 ("Fuzhou Shutong") and 南都集團控股有限公司 ("Nandu Group"), both of which are companies incorporated in the PRC and beneficially owned by independent third parties. Pursuant to the Agreement, Beijing Silver-Soft would acquire an aggregate of 51.43% equity interest in Unlimited Business Opportunity Communication Technology Co., Ltd. 北京無限商機通信技術有限公司 ("UBO"), a company incorporated in the PRC, from Fuzhou Shutong and Nandu Group. UBO is a professional technology and services provider of voice portal in communication. The consideration of the acquisition amounted to approximately HK\$25.14 million (RMB26,646,000) to be satisfied as to RMB8,646,000 by the assignment of certain trade receivables of Beijing Silver-Soft and as to RMB18 million by the issue of shares (the "Consideration Shares") of the Company. The completion of the Agreement is conditional upon, amongst others, the approval of the shareholders of the Company at a special general meeting (the "SGM"). The Consideration Shares will be issued at a price to be determined by the average closing price of the shares of the Company as quoted by the Stock Exchange for the 20 trading days immediately before the date of the SGM, subject to a maximum of HK\$0.16 per Share and a minimum of HK\$0.14 per Share.



## 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 31st December, |          |          |          | Period from                              |
|---|---------------------------|----------|----------|----------|--|
|   | 2003                      | 2002     | 2001     | 2000     | 12th April,<br>1999 to 31st<br>December, |
|   | HK\$'000                  | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000                                 |
| Turnover  | <b>14,421</b>             | 51,024   | 26,680   | 8,603    | 7  |
| Cost of sales   | <b>(5,380)</b>            | (3,958)  | (1,664)  | (990)    | (2)                                      |
| Gross profit  | <b>9,041</b>              | 47,066   | 25,016   | 7,613    | 5  |
| Other operating income  | <b>482</b>                | 239      | 169      | 4,085    | 2  |
| Distribution costs  | <b>(2,352)</b>            | (1,029)  | (127)    | (2,952)  | –  |
| Administrative expense  | <b>(34,295)</b>           | (27,187) | (9,173)  | (4,297)  | (442)                                    |
| Amortisation of goodwill  | <b>(489)</b>              | (428)    | (462)    | (158)    | (5)                                      |
| Impairment loss recognised in respect of goodwill on subsidiaries | <b>(3,818)</b>            | –        | –        | –        | –  |
| (Loss) profit from operations                                     | <b>(31,431)</b>           | 18,661   | 15,423   | 4,291    | (440)                                    |
| Interest on bank borrowings                                       | <b>(77)</b>               | (7)      | (13)     | –        | –  |
| Share of results of associates                                    | <b>(1,640)</b>            | (477)    | –        | (19)     | (564)                                    |
| Share of result of a jointly controlled entity                    | <b>13</b>                 | –        | –        | –        | –  |
| Loss on disposal of subsidiaries                                  | <b>(127)</b>              | (2,199)  | –        | –        | –  |
| Impairment loss recognised in respect of goodwill on an associate | <b>(4,351)</b>            | –        | –        | –        | –  |
| (Loss) profit before taxation                                     | <b>(37,613)</b>           | 15,978   | 15,410   | 4,272    | (1,004)                                  |
| Income tax expense  | <b>–</b>                  | (414)    | –        | –        | –  |
| (Loss) profit before minority interests                           | <b>(37,613)</b>           | 15,564   | 15,410   | 4,272    | (1,004)                                  |
| Minority interests  | <b>582</b>                | 790      | (253)    | 279      | 14                                       |
| (Loss) profit for the year/period                                 | <b>(37,031)</b>           | 16,354   | 15,157   | 4,551    | (990)                                    |



## Financial Summary

### Assets and Liabilities

|                     | <b>31st December,</b>          |                         |                         |                         |                         |
|---------------------|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                     | <b>2003</b><br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 1999<br><i>HK\$'000</i> |
| Non-current Assets  | <b>18,749</b>                  | 17,636                  | 7,221                   | 6,995                   | 2,437                   |
| Current Assets      | <b>29,737</b>                  | 67,850                  | 29,062                  | 9,481                   | 2,470                   |
| Current Liabilities | <b>5,434</b>                   | 4,757                   | 9,780                   | 5,568                   | 2,311                   |
| Net Current Assets  | <b>24,303</b>                  | 63,093                  | 19,282                  | 3,913                   | 159                     |
| Net Assets          | <b>43,052</b>                  | 80,729                  | 26,074                  | 17,731                  | 2,612                   |

#### Notes:

1. The summary of the consolidated results of the Group for the period from 12th April, 1999 to 31st December, 1999 and the years ended 31st December, 2000 and 2001 have been extracted from the published financial information as set out in the prospectus of the Company dated 28th January, 2002 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 31st December, 2003 and 2002 are set out on page 26 of the annual report.
2. The consolidated balance sheet as at 31st December, 1999 and 2000 have been extracted from the published financial information of the Company for the period from 12th April, 1999 to 31st December, 1999 and the years ended 31st December, 2000 and 2001 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheet as at 31st December, 2003 and 2002 is as set out on page 27 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 Tien Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on 28th May 2004 (Friday) at 10:30 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 2003;
2. To re-appoint Directors appointed during the period between the last annual general meeting and the date of this Notice pursuant to Article 86 of the Articles of Association 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 authorize the Board to fix their remuneration.

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions:

As Ordinary Resolutions:

4. "**THAT**"
  - (a) subject to paragraph (c) of this Resolution, and pursuant to the Rule 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 authorize 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 earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or 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 recognized regulatory body or any stock exchange applicable to the Company).”

5. **“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 recognized 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;
- (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).”



## Notice of Annual General Meeting

6. **"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. **"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 authorized 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."

As Special Resolutions:

8. **"THAT"** the Articles of Association of the Company be and is hereby amended in the following manner:
  - (a) by adding the following definition in Article 2:

**"associate(s)"** shall have the meaning ascribed to it in the rules of the Designated Stock Exchange.
  - (b) by amending the definition of "**clearing house**" in Article 2:

deleting the words "Section 2 of the Securities and Futures (Clearing Houses) Ordinance" in the first and second lines and substituting therefore the words "Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong SAR"
  - (c) by amending Article 56 as follows:

deleting the word "incorporation" in the second and fourth line of Article 56 and substituting therefor the words "adoption of the Articles"



## Notice of Annual General Meeting

- (d) by renumbering Article 76 as Article 76 (1) and adding the following as a new Article 76 (2) immediately after Article 76 (1):

"Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

- (e) by amending Article 86 (5) as follows:

deleting the word "special" in the second line of Article 86 (5) and substituting therefor the word "ordinary"

- (f) by amending Article 88 as follows:

deleting the words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in the sixth and seventh lines of Article 88 and substituting therefor the words "provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting"

- (g) by amending Article 103 (1) as follows:

- (i) deleting the words "in respect of" in the second line of Article 103 (1) and substituting therefor the word "approving";
- (ii) adding the words "or any of his associate" immediately after the word "he" in the second line of Article 103 (1);
- (iii) adding the words "or his associate(s)" after the word "Director" in the first line of Article 103 (1)(i) and the words "or any of his associates" immediately after the word "him" in the second and third lines of Article 103 (1)(i);
- (iv) adding the words "or his associate(s)" immediately after the word "Director" and the word "/themselves" immediately after the word "himself" in the third line of Article 103 (1)(ii);
- (v) adding the words "or his associate(s)" immediately after the word "Director" and the word "/are" immediately after the word "is" in the third line of Article 103 (1)(iii) and adding the word "/are" immediately after the word "is" in the fourth line of Article 103 (1)(iii);
- (vi) deleting the words "he is" in the first line of Article 103 (1)(iv) and substituting therefor the words "the Director or his associate(s) is/are" and adding the word "/" their" immediately after the word "his" in the third line of Article 103 (1)(iv);



## Notice of Annual General Meeting

- (vii) deleting the words "he is" in the first line of Article 103 (1)(v) and substituting therefor the words "the Director or his associate(s) is/are" in the first line of Article 103 (1)(v);
- (viii) deleting the words "together with any of his associates (as defined by the rules, where applicable, of the Designated Stock Exchange" in the third to fifth lines of Article 103 (1)(v) and substituting therefor the words "and/or his associate(s) is/are" and adding the words "or that of any of his associate(s)" immediately after the word "interest" in the seventh line of Article 103 (1)(v);
- (ix) deleting the word "both" and adding the words ", his associates" immediately after the "directors" in the third line of Article 103 (1)(vi);
- (x) adding the words "or his associate(s)" immediately after the word "Director" in the fourth line of Article 103 (1)(vi);
- (h) by amending Article 103 (2) as follows:
  - (i) adding the words "and/or his associate(s)" immediately after the word "Director" in the first line of Article 103 (2);
  - (ii) adding the word "/or" immediately after the word "and" in the second line of Article 103 (2);
  - (iii) deleting the words "(as defined by the rules, where applicable, of the Designated Stock Exchange)" in the second and third lines of Article 103 (2);
  - (iv) adding the word "/their" immediately after the word "his" and adding the words "or that of any of his associates" immediately after the word "interest" in the sixth line of Article 103 (2);
  - (v) adding the words "or his associates" immediately after the word "Director" in the seventh line of Article 103 (2);
  - (vi) adding the words "or any of them" immediately after the word "he", deleting the word "Director's" immediately after the word "the" in the eighth line of Article 103 (2);
  - (vii) deleting the word "is" immediately after the word "interest" in the eighth line of Article 103 (2) and substituting therefor the words "of the Director or his associate(s) is are";
  - (viii) deleting the word "is" immediately after the word "Director" in the ninth line of Article 103 (2) and substituting therefor the words "or his associate(s) is/are";





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- (i) by amending Article 103 (3) as follows:
  - (i) deleting the words “together with” immediately after the word “Director” in the first line of Article 103 (3) and substituting therefor the words “and/or”;
  - (ii) deleting the words “(as defined by the rules, where applicable, of the Designated Stock Exchange)” immediately after the word “associates” in the first line of Article 103 (3);
  - (iii) adding the word “/are” immediately after the word “is” in the second line of Article 103 (3);
  - (iv) adding the words “and/or his associate(s)” immediately after the word “Director” in the third line of Article 103 (3);
- (j) by amending Article 103 (4) as follows:
  - (i) adding the words “or his associate(s)” immediately after the word “meeting)” in the second line of Article 103 (4);
  - (ii) adding the words “and/or his associate(s)” immediately after the word “Director” in the sixth line of Article 103 (4);

By Order of the Board  
**Linefan Technology Holdings Limited**  
**Zhu Zhaofa**  
*Executive Director*

Hong Kong, 23rd April, 2004

*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 notarially 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 Center, 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. An explanatory statement containing further details regarding the proposed Resolutions nos. 4 to 7 will be dispatched to shareholders together with the Company's 2003 Annual Report of which this notice forms part.