

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

(Incorporated in the Cayman Islands with limited liability)



Interim Report
2004

* for identification purpose only

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This report, for which the directors (the “Directors”) of Linefan Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

Financial Highlights

Unaudited turnover decreased to approximately HK\$1,923,000 for the six months ended 30 June 2004 representing a decrease of approximately 83.1% as compared to the corresponding period in 2003.

Unaudited net loss attributable to shareholders amounted to approximately HK\$9,859,000 for the six months ended 30 June 2004.



UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the "Board") of the Linefan Technology Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003.

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,070	1,278	1,923	11,383
Cost of sales		(289)	(982)	(371)	(2,134)
Gross profit		781	296	1,552	9,249
Other operating income		25	349	27	396
Distribution costs		(8)	(313)	(50)	(385)
Administrative expenses		(7,129)	(10,309)	(10,954)	(17,649)
Amortization of goodwill		2	(366)	5	(485)
Loss from operations	4	(6,329)	(10,343)	(9,420)	(8,874)
Interest on bank borrowings		(4)	(27)	(19)	(28)
Share of results of associates		(29)	10	(110)	(368)
Share of results of a jointly controlled entity		(260)	–	(261)	–
Loss on disposal of subsidiaries		(49)	–	(49)	–
Loss before taxation		(6,671)	(10,360)	(9,859)	(9,270)
Income tax expenses	5	–	–	–	–
Loss after taxation but before minority interests		(6,671)	(10,360)	(9,859)	(9,270)
Minority interests		–	162	–	252
Loss attributable to shareholders		(6,671)	(10,198)	(9,859)	(9,018)
Loss per share					
– Basic (in HK cents)	7	(0.59)	(1.10)	(0.87)	(0.97)
– Diluted (in HK cents)	7	N/A	(1.00)	N/A	(0.88)



CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		18,349	3,782
Intangible asset		8,106	10,158
Interests in associates		–	105
Interest in a jointly controlled entity		4,459	4,704
		30,914	18,749
Current assets			
Inventories		–	94
Trade receivables	8	1,340	7,610
Other receivables, deposits and prepayments	9	13,686	19,390
Amount due from an associate		–	2,064
Cash and bank balances		2,494	579
		17,520	29,737
Current liabilities			
Other payables and accrued charges		4,518	4,371
Short-term bank borrowings – unsecured		–	1,063
Amounts due to directors	10	745	–
Amounts due to shareholders	11	1,126	–
		6,389	5,434
Net current assets		11,131	24,303
		42,045	43,052
Capital and reserves			
Share capital	12	12,078	9,291
Reserves		29,967	33,761
Minority interests		42,045	43,052
		–	–
		42,045	43,052

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	For the six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net cash generated from/(used in) operating activities	9,163	(3,094)
Net cash used in investing activities	(16,819)	(7,573)
Net cash from financing activities	9,535	2,769
Increase/(decrease) in cash and cash equivalents	1,879	(7,898)
Cash and cash equivalents at the beginning of period	579	30,847
Effect of exchange rate changes	36	(93)
Cash and cash equivalents at the end of period	2,494	22,856
Analysis of balances of cash and cash equivalents:		
Bank balance and cash	2,494	22,856
Bank borrowings	–	–
	2,494	22,856



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2004

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserve HK\$'000	Exchanged reserve HK\$'000	Accumulated profits/(loss) HK\$'000	Total HK\$'000
At 1 January 2003	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293
Exchange adjustment	-	-	-	-	-	(140)	-	(140)
Loss for the period	-	-	-	-	-	-	(9,018)	(9,018)
At 30 June 2003	9,291	28,408	3,970	3,324	11,623	88	14,431	71,135
At 1 January 2004	9,291	28,408	3,970	3,324	11,623	18	(13,582)	43,052
Issue of shares under the placing	1,858	3,902	-	-	-	-	-	5,760
Issue of shares on exercise of share options	929	2,323	-	-	-	-	-	3,252
Share issue expenses	-	(266)	-	-	-	-	-	(266)
Exchange adjustment	-	-	-	-	-	106	-	106
Loss for the period	-	-	-	-	-	-	(9,859)	(9,859)
At 30 June 2004	12,078	34,367	3,970	3,324	11,623	124	(23,441)	42,045



Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

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

The accounting policies and basis of preparation adopted for the presentation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

2. TURNOVER

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

	For the three months ended 30 June		For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
KM Systems				
– Non-structural knowledge integration systems	1,003	1,142	1,777	8,218
– Structural information integration and analysis systems	67	78	122	816
KM related network application systems	–	28	11	28
Other system and software related service	–	30	13	2,321
	1,070	1,278	1,923	11,383



3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Geographical segments

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 market is as follows:

	For the six months ended 30 June,			
	External sale by geographical market		Segment results	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Geographical market:				
Hong Kong	–	–	–	(4,214)
PRC other than Hong Kong	1,923	11,383	(9,420)	(4,660)
	1,923	11,383	(9,420)	(8,874)
Interest on bank borrowings			(19)	(28)
Share of results of associates			(110)	(368)
Share results of a jointly controlled entity			(261)	–
Loss on disposal of subsidiaries			(49)	–
Loss before minority interests			(9,859)	(9,270)

	Hong Kong		PRC other than Hong Kong		Consolidated	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	ASSETS					
Segment assets	686	2,281	43,289	39,053	43,975	41,334
Unallocated corporate assets					4,459	7,152
Consolidated total assets					48,434	48,486
LIABILITIES						
Segment liabilities	4,255	2,372	2,134	1,999	6,389	4,371
Unallocated corporate liabilities					–	1,063
					6,389	5,434
OTHER INFORMATION						
Allowance for bad and doubtful debts	–	–	2,582	10,076	2,582	10,076
Amortisation of goodwill	–	–	5	969	5	969
Capital expenditure	–	18	16,590	12,570	16,590	12,588
Depreciation	23	100	1,439	1,798	1,462	1,898
Amortisation of intangible asset	–	–	2,085	2,337	2,085	2,337
Impairment loss recognised in respect of goodwill	–	–	–	8,169	–	8,169



4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging and crediting:

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Total staff costs	1,209	2,800
Bad debts written off	3,494	4,092
Provision for doubtful debts	(912)	1,649
Depreciation	1,462	974
Interest income	27	79

5. INCOME TAX EXPENSES

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 31 December 2001. No provision for PRC income tax has been made for the period 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 period 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 period.

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 period.

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

6. DIVIDEND

The board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

7. LOSS PER SHARE

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

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Loss for the period for the purpose of the basic loss per share	9,859	9,018
Weighted average number of ordinary shares for the purpose of basic loss per share	1,138,880,390	929,090,000
Effect of dilutive potential ordinary shares on options	-	92,900,000
Weighted average number of ordinary shares for the purpose of diluted loss per share	1,138,880,390	1,021,990,000

The computation of diluted earnings per share for the period ended 30 June 2004 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 of shares.



8. TRADE RECEIVABLES

The Group generally allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
0-60 days	1,201	263
61-90 days	–	1,398
>90 days	139	5,949
	1,340	7,610

9. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

Included in the amount are deposits of approximately RMB2,657,830 and RMB1,000,000 (equivalent to approximately HK\$2.50 million and HK\$0.94 million) held by two PRC individuals respectively who have been engaged by the Group to assist in certain software development projects of the PRC government authorities.

The amount also included receivables of RMB8,645,690 (equivalent to approximately HK\$8.16 million) assigned to 南都集團控股有限公司 ("Nandu Group") and 福州數通信息技術有限公司 ("Fuzhou Shutong") (the "Vendors") on 28 June 2004 in accordance with the terms and conditions of the acquisition agreement (the "Acquisition Agreement") which was completed on 21 July 2004. Details of the Acquisition Agreement have been disclosed in the announcement dated 21 July 2004.

10. AMOUNTS DUE TO DIRECTORS

The balances are unsecured, interest-free and no fixed terms of repayment.

11. AMOUNTS DUE TO SHAREHOLDERS

The balances are unsecured, interest-free and no fixed terms of repayment.

**12. SHARE CAPITAL**

	Number of shares	<i>HK\$'000</i>
Authorised		
At 1 January 2002	3,500,000	350
Subdivided into 10 shares of HK\$0.01 each on 24 January 2002	31,500,000	–
Increase in authorised share capital on 24 January 2002	4,965,000,000	49,650
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At 30 June 2004 and 31 December 2003	5,000,000,000	50,000
<hr/>		
Issued and fully paid		
At 1 January 2002	67,200	–
Subdivided into 10 shares of HK\$0.01 each on 24 January 2002	604,800	–
<hr/>		
	672,000	–
Credit as fully paid up on 24 January 2002	–	7
Issue of shares by way of capitalisation	708,418,000	7,084
Issue of shares under the placing on 5 February 2002	220,000,000	2,200
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At 31 December 2003	929,090,000	9,291
<hr/>		
Issue of shares under the placing on 16 January 2004	185,810,000	1,858
Issue of shares on exercise of share options (<i>Note 13</i>)	92,909,000	929
<hr/>		
At 30 June 2004	1,207,809,000	12,078

On 16 January 2004, the Company issued 185,810,000 new shares at HK\$0.031 per share by way of placement.



13. SHARE OPTIONS SCHEME

On 24 January 2002, the share option scheme of the Company was approved pursuant to a written resolution of the Company (the "Share Option Scheme"). The principal terms of which are set out in the section headed "Share Option Scheme" in the Prospectus. As at the date of this report, options in respect of a total 185,818,000 shares were granted since the adoption of the Share Option Scheme which were all made to various employees and an aggregate of 92,909,000 options have been exercised by option holders. Details of the options granted since the adoption of the Share Option Scheme up to this report were as follows:

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

**14. LEASE COMMITMENTS**

At 30 June 2004, the Group had commitments for future minimum lease payments under non-cancelable lease which fall due as follows:

	As at 30 June 2004 (Unaudited) HK\$'000	As At 30 June 2003 (Unaudited) HK\$'000
Within one year	101	253
In the second to fifth year inclusive	–	177
	101	430

15. POST BALANCE SHEET EVENT

On 21 July 2004, the Company issued 121,293,800 new shares to the Vendors pursuant to the terms and conditions of the Acquisition Agreement.

16. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 10 and 11 above, the Group do not have any transaction with related party during the period under review.



MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the six months under review, the Group has changed its market strategy to accommodate with the new market potential and environment by extension of the application of knowledge management (“KM”), the core technology of the Group, from government project to the market of voice search engine. Keep paying attention to the PRC government projects by relying on its existing customer base, the Group has strengthen its voice search engine business to provide voice search engine portal to the mobile phone users of China Unicom Limited. The nationwide marketing campaign for the voice search engine business has begun and has employed in most cities of PRC with fast spread.

Financial review

During the period under review, turnover dropped substantially by 83.1% to approximately HK\$1,923,000 from approximately HK\$11,383,000 for the corresponding period in the previous year. The decrease was mainly due to a change in the Group’s marketing strategy by exploring new markets and the overall budget-cutting for government departments in the PRC which were major customers of the Group.

Cost of sales and distribution costs for the period under review decreased to approximately HK\$371,000 and HK\$50,000 respectively from approximately HK\$2,134,000 and HK\$385,000 respectively of the corresponding period. The decrease was in line with the decrease in turnover during the period. Administrative expenses for the six months under review decreased to approximately HK\$10,954,000 from approximately HK\$17,649,000 for the corresponding period in the previous year. Such decreases were mainly due to cost control measure adopted by the Group.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$9,859,000 as compared to the loss attributable to shareholders of approximately HK\$9,018,000 for the corresponding period in the previous year.

Outlook

To achieve the healthy and rapid growth, the Group will keep changing its target towards the business of voice search engine. The Group will keep applying the application of its KM products and technology in government projects while strengthening its voice search engine business to provide voice search engine portal to the mobile phone users of China Unicom. The Group will cooperate with China Mobile and China Unicom, two leading companies in the telecommunication industry of the PRC, for the nationwide marketing campaign of the voice search engine business to achieve its health growth in terms of income and profit.



Liquidity and financial resources

The Group financed its business operations with internally generated cash flows, issuance of new shares and loans from directors and shareholders. As at 30 June 2004, the Group's cash and cash equivalents balance was approximately HK\$2,494,000. The shareholders' funds of the Group amounted to approximately HK\$42,045,000 as at 30 June 2004 as compared to HK\$43,052,000 as at 31 December 2003.

Employees

As at 30 June 2004, the Group had 67 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.

Capital structure

On 16 January 2004, the Company issued 185,810,000 new shares, representing 20% of its issued share capital prior to such issue. Up to 30 June 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.

Significant investments

On 19 March 2004, the Group, through Beijing Silver-Soft, entered into an Acquisition Agreement with 福州數通信息技術有限公司 ("Fuzhou Shutong") and 南都集團控股有限公司 ("Nandu Group") (the "Vendors") pursuant to which Beijing Silver-soft would acquire an aggregate of approximately 51.43% equity interest in 北京無限商機通信技術有限公司 ("UBO") at a consideration of RMB26,645,690 (equivalent to approximately HK\$25.14 million). The consideration has been satisfied as to RMB8,645,690 (equivalent to approximately HK\$8.16 million) by the assignment of receivables of the same amount to the Vendors on 28 June 2004 and as to RMB18 million (equivalent to approximately HK\$16.98 million) by the issue of a total of 121,293,800 consideration shares on 21 July 2004.



Save as disclosed above, the Group undertook no material acquisition or disposal.

Segmental information

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

Charge on Group assets and contingent liabilities

There was no charge on the Group’s assets and no significant contingent liabilities as at 30 June 2004.

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.

Gearing ratio

As at 30 June 2004, the Group had cash and cash equivalents of approximately HK\$2,494,000 in its current assets while its current liabilities stood at approximately HK\$6,389,000. The Group did not have outstanding bank indebtedness as of 30 June 2004 and its shareholders’ funds amounted to approximately HK\$42,045,000. In this regard, the Group had a net cash position as of 30 June 2004.



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 PERIOD

ACTUAL PROGRESS

Development of products/services

KM systems

- | | |
|--|--------------------------------|
| 1. Non-structural knowledge integration systems | |
| a. Collect beta testing result of LF e-Agent and fix the bugs found | Completed |
| b. Prepare to build LF e-Agent standard version 1.0 | Completed |
| c. Collect beta testing result of LF e-Assistant and fix the bugs found | Completed |
| d. Prepare to build LF e-Assistant standard version 1.0 | Completed |
| e. Commence the development of LF e-Center 3.0 | Postponed due to market demand |
| 2. Structural information integration and analysis systems | |
| a. Continue to engage in database related system integration, consulting, software sales and training services | Consistent with the Prospectus |

KM related network application systems

- | | |
|---|-------------------|
| 1. Commence the development of universal interface connecting KM system to other management system by third parties | Under development |
|---|-------------------|



Geographical expansion

KM systems

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

Continue to establish distribution network national-wide and within limited overseas market

Postponed due to changes in marketing plan

2. Structural information integration and analysis systems

Continue to establish of sales and distribution networks in other parts of the PRC

Consistent with the Prospectus

Sales, marketing and business development

KM systems

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

- a. Continue to strengthen the research on and applications development of natural language processing technology

Consistent with the Prospectus

- b. Gradually increase the strength in sales and business promotion in the overseas market

Postponed due to changes in marketing plan

2. Structural information integration and analysis systems

- a. Continue to organise seminars jointly with business partners for system integration and consulting services and sale of ADMS

Consistent with the Prospectus

- b. Continue to arouse international brandname awareness through press conferences, conventions and trade shows

Consistent with the Prospectus

- c. Continue to establish vertical distribution channels and third-party professional distribution channels in other parts of the PRC

Consistent with the Prospectus



Enhancement of research and development capabilities

KM systems

1. Non-structural knowledge integration systems
 - a. Continue to develop information handling technology relating to streaming media Under development
2. Structural information integration and analysis systems
 - a. Continue to study the voice integrated applications on mobile computing devices Under development



USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

The actual net proceeds from the placement on 5 February 2002 was approximately HK\$38,000,000. Details of utilization of funding from the actual net proceeds versus that envisaged in the prospectus of the Company dated 28 January 2002 (the "Prospectus") for the six months ended 30 June 2004 are as follows:

	Proposed total fundings required from net proceeds <i>HK\$'million</i>	Proposed fundings required for the period <i>HK\$'million</i>	Actual fundings spent for the period <i>HK\$'million</i>
For products/service development for the advancement of the Group's existing KM products and the commencement of new product design (<i>Note 1</i>)	3.00	0.3	–
For enhancement of R&D capabilities for continuing the R&D of new KM systems and its related products for increasing the R&D professionals (<i>Note 1</i>)	11.00	1.7	1.2
For sales, marketing and business development (<i>Note 2</i>)	9.80	1.5	2.0
For geographical expansion (<i>Note 3</i>)	5.20	0.8	3.2
For equipment and facilities for upgrading the Group's computer software, hardware and management information system (<i>Note 3</i>)	3.50	0.5	2.8
For general working capital of the Group	2.50	–	–
	35.00	4.8	9.2

Notes:

1. The Group had implemented cost-control measures which have resulted in the actual costs incurred to implement the Group's business activities being lower than that stated in the Prospectus. Furthermore, certain business activities which were planned in the scheduled achievements have been delayed. As a result, the Group has expended less money than envisaged in implementing its business plan.
2. The Group had expanded the sales and distribution networks in Hong Kong and PRC respectively. In addition, the Group had also boosted up the sales of the new business by launching a series of nationwide promotional campaign in most cities of the PRC.
3. The Group has purchased and upgraded equipment and facilities so as to cope with the new business and meet with the latest development in the market.



DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30 June 2004, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including benefits by means of the acquisition of shares in, debts securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executives if the Company or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercise any such right.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2004, 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the directors were as follows:

Name of director or Chief Executive	No of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Zhu Zhaofa	–	–	10,210,000 (Note 1)	–
Mr. Zhu GuangBo	–	–	204,400,000 (Note 2)	–

Notes:

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. These shares are registered in the name of World Develop Limited, which is beneficially-owned by Mr. Zhu Guang Bo.

Save as disclosed above, as at 30 June 2004, none of the directors and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to notify 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 5.46 to 5.68 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 during the time under review.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, 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
World Develop Limited (<i>Note 1</i>)	Beneficial owner	204,400,000	16.92%
Zhu Guang Bo (<i>Note 1 and 2</i>)	Held by controlled corporation	204,400,000	16.92%
Zhou Ju Ying (<i>Note 3</i>)	Beneficial owner	63,084,943	5.22%

Notes:

1. World Develop Limited ("WDL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Zhu Guang Bo.
2. The shares are registered in the name of World Develop Limited, and Mr. Zhu Guang Bo is the executive director of the Company.
3. Ms. Zhou Ju Ying is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules.

Save as disclosed above, as at 30 June 2004, 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 sponsors, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 30 June 2004, neither the Sponsor, nor any of its respective directors, employees or associates (as defined in the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group, or any right to subscribe, for or to nominate persons to subscribe for the securities of the Company or any member of the Group.



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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2004.

CONNECTED AND RELATED PARTY TRANSACTION

Save as disclosed in notes 10 and 11 to the financial statement, 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 general 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.

CORPORATE GOVERNANCE

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 June 2004.

AUDIT COMMITTEE

The Company established an audit committee on 31 July 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently comprises Doctor Chan, Peter Yat Tung and Mr. Feng Jue Min, who are the independent non-executive directors of the Company. The Group's unaudited results for the six months ended 30 June 2004 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By Order of the Board
Ma Gui Fang
Executive Director

Hong Kong, 10 August 2004