



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

(Incorporated in the Cayman Islands with limited liability)

Annual  
Report  
2004

\*for identification purpose only

## **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.



# C o n t e n t

Corporate Information	2
Chairman's Statement	3
Biographical Details of the Directors and Senior Management	5
Management Discussion and Analysis	7
Comparison of Implementation Plans with Actual Progress	11
Use of Proceeds from Issuance of New Shares	14
Report of the Directors	16
Report of the Auditors	25
Consolidated Income Statement	26
Consolidated Balance Sheet	27
Balance Sheet	29
Consolidated Statement of Changes in Equity	30
Consolidated Cash Flow Statement	31
Notes to the Financial Statements	33
Financial Summary	66
Notice of Annual General Meeting	68

## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Wang Yong (*Chairman*)  
Zhu Guang Bo  
Ma Gui Fang

#### Independent Non-Executive Directors

Chan, Peter Yat Tung  
Feng Jue Min  
Zhang Gong

### COMPLIANCE OFFICER

Wang Yong

### COMPANY SECRETARY

Ho Suet Man Stella *FCCA, CPA*

### QUALIFIED ACCOUNTANT

Ho Suet Man Stella *FCCA, CPA*

### AUDIT COMMITTEE

Chan, Peter Yat Tung (*Chairman*)  
Feng Jue Min  
Zhang Gong

### AUDITORS

Horwath Hong Kong CPA Limited

### HEAD OFFICE AND PRINCIPAL 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.cn](http://www.linefan.com.cn)

## Chairman's Statement

During 2004, Linefan Technology Holdings Limited, together with its subsidiaries (the "Group") adjusted its strategies to take account of new opportunities in a changing market environment. In particular, the Group further extended the application of its knowledge management (KM) core technology from government projects to voice-search engines.

### BUSINESS REVIEW

#### Ongoing development of voice search engine technology

While maintaining close attention to PRC Government projects and its existing customer base, the Group strengthened its voice-search engine business by providing voice search engine portal services to customers of China Unicom Limited, one of China's leading mobile communication service providers.

Following the successful introduction of such services on a nationwide scale, in areas including Beijing, Shandong and Heilongjiang, the Group has increased its cooperation with China Unicom at a rapid pace; with the aim of developing and launching value-added mobile voice-search services throughout China Unicom's entire network. In doing so, the Group is fully utilising its existing technology and the advantages of its products in order to gain economies of scale and cost-effectiveness.

#### Industry-specific applications and new technologies

As it has steadily expanded its customer base, the Group has used its existing platform to launch group applications for specific industries. It has also achieved new breakthroughs in its 3G business, and further developed the existing platform of its WAP business by creating new blazing ringtones and mobile games.

Besides investigating the potential of the Interactive Voice Response (IVR) business, the Group explored other new growth areas, thus laying solid foundations for the further expansion of its business, and achieving outstanding financial benefits.

## FUTURE OUTLOOK

During the coming year, the Group will further adjust its focus towards the value-added search-engine business.

It will continue to apply its KM products and technology to meet the needs of government projects. At the same time, it will enhance its cooperation with mobile service providers, especially China Unicom. The Group's efforts in the mobile telecommunications service area will mainly centre on developing and providing value-added services. It will simultaneously expand its business among group users; and use its existing portal to seek new breakthroughs and further develop its 3G business and other areas of potential growth.

The expansion of the value-added mobile services market in the past months indicates that value-added voice services entice customers to use their mobile phones more frequently and for longer periods. Such services are therefore set to become the focus of competition within the telecommunications industry, as well as an increasing source of revenue for operators.

The development of mobile value-added services in various industry applications is set to accelerate in 2005, in line with the strong trend towards the development of industry applications and the personal entertainment business in foreign countries.

The WAP sector is also expected to advance. More and more people are using WAP, as terminals grow increasingly popular, the service development environment gradually improves, and the available contents are enriched. We hope and believe that WAP will experience explosive growth in the near future.

These trends, together with the Group's commitment to continuously expanding its mobile value-added services, create a promising environment for the further growth of its revenue and profit during the year ahead.

**Wang Yong**  
*Chairman*

Hong Kong, 29 March 2005

## Biographical Details of the Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr. Wang Yong (王勇)**, aged 34, was appointed as the executive director of the Company on 28 May 2004. Mr. Wang is responsible for the overall strategic development of the Group. Mr. Wang holds an executive master degree in business administration and a bachelor degree in sports medicine. Mr. Wang had served as the general manager of the Beijing subsidiary of the China Scholars Group Company Limited (神州學人集團股份有限公司北京分公司), a company listed on the Shenzhen Stock Exchange in the People's Republic of China (the "PRC"); assistant to president of China HuaRui Investment and Management Company Limited (中國華瑞投資管理有限公司); vice president of GuoZhong Investment and Management Company Limited (國眾投資管理有限公司). Mr. Wang is currently the director and president of China Scholars Group Company Limited (神州學人集團股份有限公司), a company listed on the Shenzhen Stock Exchange in the PRC.

**Mr. Zhu Guang Bo (祝廣波)**, aged 38, is the executive director of the Company. Mr. Zhu 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.

**Ms. Ma Gui Fang (馬桂芳)**, aged 39, is the executive director of the Company and the general manager of Beijing subsidiary of the Group. Ms. Ma joined the Group in March 2002, and was appointed as the executive director of the Company in August 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** (continued)**INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Doctor Chan, Peter Yat Tung** (陳日東博士), aged 54, 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. Zhang Gong** (張工), aged 36, was appointed as an independent non-executive director and member of audit committee of the Company in October 2004. Mr. Zhang is a member of The Chinese Institute of Certified Public Accountants. Mr. Zhang holds an executive master's degree in business administration and a bachelor's degree in economics. Mr. Zhang has over 14 years experience in auditing and accounting and is currently the senior vice president and financial controller in a risk management company in the People's Republic of China.

**Mr. Feng Jue Min** (馮覺民), aged 41, was appointed as an independent non-executive director and a member of audit committee of the Company in May 2004. Mr. Feng obtained an executive master's degree in business administration from the Guanghua School of Management in Peking University and a bachelor's degree in economics from Peking University. Mr. Feng is a senior economist and currently the general manager of China Great Wall Finance Company (北京長城財務公司) since October 2000.

**SENIOR MANAGEMENT**

**Mr. Li Jun** (李軍), aged 37, joining the Group in September 2001, is the general manager of a Beijing subsidiary of the Group. Mr. Li holds a bachelor's degree in Electronic Information Engineering from the Faculty of Wireless Electric in Sichuan University. Mr. Li has 15 years of experience in business development and corporate management.

**Miss Ho Suet Man Stella** (何雪雯), aged 33, has been appointed as the Company secretary and authorised representative of the Company in May 2004. Miss Ho also serves as the financial controller of the Company. Miss Ho is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Miss Ho has nine years of experience in auditing and financial management. Miss Ho has worked in the international accounting firms, main board and GEM companies listed in Hong Kong.

**Mr. Liu Bao Lie** (劉寶磊), aged 31, joining the Group in May 2004, is the financial controller of Beijing subsidiaries of the Group. Mr. Liu is a member of The Chinese Institute of Certified Public Accountants. Mr. Liu holds a bachelor's degree in Accountancy from the School of Mechanical Industry in Peking University. Mr. Liu has 7 years of experience in financial management.



## Management Discussion and Analysis

### FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$6,181,000 (2003: HK\$14,421,000) representing a decrease of approximately 57.14%. 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 for the year under review decreased to approximately HK\$2,825,000 from approximately HK\$5,380,000 of the corresponding year. The decrease was in line with the decrease in turnover during the year. Distribution costs for the year under review increased to approximately HK\$3,052,000 from approximately HK\$2,352,000 of the corresponding year. The increase was due to the expansion of sales and distribution networks and launching a series of nationwide promotional campaign. Administrative expenses for the year under review including write offs of intangible assets for the amount of approximately HK\$7,386,000, decreased to approximately HK\$33,803,000 from approximately HK\$34,295,000 of the corresponding year.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$36,493,000 for the year ended 31 December 2004 (2003: HK\$37,031,000).

### LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business operations with internally generated cash flows, issuance of new shares and loans from directors. As at 31 December 2004, the Group's cash and cash equivalents balance was approximately HK\$582,000 (2003: HK\$579,000).

The shareholders' funds of the Group amounted to approximately HK\$39,698,000 (2003: HK\$43,052,000). Current assets and current liabilities amounted to approximately HK\$7,094,000 (2003: HK\$29,737,000) and HK\$3,841,000 (2003: HK\$5,434,000) respectively as at 31 December 2004.

### GEARING RATIO

The Group did not have outstanding bank indebtedness as at 31 December 2004. The gearing ratio of the Group as at 31 December 2003 was 2.47% which is expressed as a percentage of the total bank borrowings over total shareholders' fund.

## BUSINESS REVIEW

For the past three months, the Group cooperated closely with China Unicom, a leading mobile communication service provider in China. On the basis of successful introduction of mobile voice search services to customer in a nationwide scale in places like Shandong, Heilongjiang and Beijing, the Group continued to increase the level and scale of cooperation with China Unicom, and to develop and commence mobile value-added voice service for the whole network of China Unicom. Realizing whole network introduction by one touch, the Group fully used its current technology and product advantages to realize large business scale with low cost. All cooperation projects have developed rapidly.

The Group has not only expanded its end-users, but also constantly segmented its groups of customers to launch group applications for various industries making use of the existing platform. Moreover, the Group has achieved a breakthrough and new trial on 3G business, and gradually developed WAP business such as blazing ringtone and mobile games making use of the existing platform. While actively exploring the mobile Interactive Voice Response (IVR) business, the Group explored other new growth area of the business of the Company, and set a solid foundation for further expansion of its business – achieving remarkable economic benefits for the Group.

## OUTLOOK

The Group will continue to enhance and increase the cooperation with mobile service providers in value-added mobile service, mainly in the development of value-added mobile service. Meanwhile, the Group will expand its business to group users, and, on the basis of the existing portal, to seek breakthrough and attempt in 3G business, and explore new source of business growth for the Group.

Based on the general growth condition of the mobile value-added service market in the past three months, it is a common understanding in the market that value-added mobile voice service as a new value-added service can entice customers to use the service more and longer. With a great potential in group users market, the value-added service will become a top competing area among competitors in the telecommunication industry in the future and increase the revenue for telecommunication operators.

The pace of market expansion of mobile value-added service in various industry application fields will speed up in 2005. In view of the development trend in foreign countries, industry application has become a strong focus of development in addition to personal entertainment business.

## Management Discussion and Analysis (continued)

As regards WAP development, with the continuous popularization of WAP terminals and the gradual improvement of the service development environment (including charging service), the development of WAP business is gradually pressing forward. At present, more and more users are starting to accept WAP, which has transited from slow growth to rapid development. With the continuous enrichment of contents, WAP will hopefully develop into an era of explosive growth.

In view of the above analysis, along with the Group's continuous expansion of mobile value-added service, industry application and constant expansion of WAP business, an increase in the Group's revenue and profit will be accomplished.

### SEGMENTAL INFORMATION

KM products accounted for approximately 61.85% (2003: 100%) and voice portal gateway facilities in communication and voice portal application software accounted for approximately 38.15%. On the other hand, the Group's turnover all came from China, representing 100% (2003: 100%) of the total turnover. The details are set out in note 5 to the financial statements.

### EMPLOYEES

As at 31 December 2004, the Group had 53 (31 December 2003: 138) 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 31 December 2004 totalled HK\$2,969,000 (2003: HK\$5,360,000), representing a decrease of 44.61%. The major reason is tightened cost control of the Company. Salaries of certain staff were cut, the number of staff decreased and the directors' remuneration were substantially reduced.

### 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. On 21 July 2004, the Company issued 121,293,800 shares, representing 10.04% of its issued share capital prior to such issue. On 19 October 2004, the Company issued 241,561,800 new shares, representing 18.17% of its issued share capital prior to such issue. During the year under review, 92,909,000 share options had been exercised. As a result, the total issued shares of the Company increased to 1,570,664,600.

## 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.

## MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

On 20 September 2004, the Group has disposed of its 100% equity interest in a subsidiary at a consideration of RMB2.48 million (equivalent to approximately HK\$2.34 million). Save as above, 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 31 December 2004.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

All of the Group’s assets, liabilities and transaction are denominated either in Hong Kong dollars or Renminbi (RMB). As the exchange rate of HK\$ against RMB has 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 31 December 2004 as disclosed in the Prospectus**      **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 |
| f. | Release LF e-Agent standard version 1.0   | Completed                      |
| g. | Release LF e-Assistant standard version 1.0   | Completed                      |
| h. | Release LF e-Center 3.0 Beta  | 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 |



## Comparison of Implementation Plans with Actual Progress (continued)

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

- |  |                   |
|--|-------------------|
| 1. Continue to develop an 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 in limited overseas market                      | Adjusted to market, establish distribution network in PRC |
| 2. Structural information integration and analysis systems                                 |   |
| Continue to establish of sales and distribution network 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                        | Adjusted to market             |
| c. Carefully implement marketing strategies in selected overseas regions based on marketing analysis             | Adjusted to market             |



### Comparison of Implementation Plans with Actual Progress (continued)

- |    |   |                                |
|----|---|--------------------------------|
| 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      | Adjusted to market             |
| b. | Continue to arouse international brandname awareness through press conferences, conventions and trade shows                       | Adjusted to market             |
| 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. During the period from February 2002 to 31 December 2003, HK\$23,270,000 has been spent and for the year ended 31 December 2004, HK\$11,730,000 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 31 December 2004 are as follows:

	<b>Proposed total fundings required from net proceeds</b> <i>HK\$'million</i>	<b>Proposed fundings required for the year ended 31 December 2004</b> <i>HK\$'million</i>	<b>Actual fundings spent for the year ended 31 December 2004</b> <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	0.5	–
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	3.4	2.83
For sales, marketing and business development	9.80	3.0	2.9
For geographical expansion ( <i>Note 2</i> )	5.20	1.6	3.2
For equipment and facilities for upgrading the Group's computer software, hardware and management information system ( <i>Note 2</i> )	3.50	1.0	2.8
For general working capital of the Group	2.50	–	–
	<u>35.00</u>	<u>9.5</u>	<u>11.73</u>





## Use of Proceeds from Issuance of New Shares (continued)

*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 has purchased and upgraded equipment and facilities so as to cope with the new business and meet with the latest development in the market.

## 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 31 December 2004.

### **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 30 November 2000. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("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 24 January 2002.

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

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

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 14 to the financial statements.

### **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 26.

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2004 (2003: 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 66 in the annual report.

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 46% and approximately 94% of the Group's turnover, respectively, and the largest and the five largest suppliers account for approximately 50% and 67% of the Group's cost of sales respectively for the year ended 31 December 2004. 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 and the Group are set out in note 24 to the financial statements and the consolidated statement of changes in equity of the Group on page 30 respectively.

## SHARE OPTIONS

On 24 January 2002, a share option scheme was approved pursuant to a written resolution of the Company (the "Share Option Scheme").

The purpose of the Share Option Scheme is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The Board may, at its discretion, invite any full-time or part-time 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 the 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 as consideration for the grant. The subscription price for the shares of the Company will be a price determined by the Board based on the highest of (i) the closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet of the date of granting the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of granting the options; and (iii) the nominal value of the share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24 January 2002.

## Report of the Directors (continued)

Details of the options granted since the adoption of the Share Option Scheme up to 31 December 2004 were as follows:

	Granting date	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 2004
Selected Employees (in aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002-14/11/2005	Nil	74,900,000	18,000,000
Wang Ya Hong	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Qin Chuanjun	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Li Na	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Wang Pu	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Zuo Na	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Shi Lei	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Li Jun	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Meng Qingshan	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Han Xu	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Zhang Wen Yan	27/01/2004	9,000,000	HK\$0.035	27/01/2004-23/01/2011	9,000,000	Nil	Nil
Wang Ling	27/01/2004	2,909,000	HK\$0.035	27/01/2004-23/01/2011	2,909,000	Nil	Nil

No directors of the Company were granted with the options pursuant to the Share Option Scheme. As the 10% general limit on the granting of options under the Share Option Scheme has almost been reached, 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 options 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 2004 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 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:

Ma Gui Fang	
Zhu Guang Bo	(appointed on 9 March 2004)
Wang Yong	(appointed on 28 May 2004)
Zhu Zhaofa	(retired on 28 May 2004)
Xu Wen Bo	(resigned on 1 November 2004)
Jiang Jian Sheng	(resigned on 1 November 2004)

### Non-executive directors:

Gao Xin Min	(retired on 28 May 2004)
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### Independent non-executive directors:

Chan, Peter Yat Tung	
Feng Jue Min	(appointed on 28 May 2004)
Zhang Gong	(appointed on 20 October 2004)
Hu Wei	(retired on 28 May 2004)

In accordance with article 87 of the Company's articles of association, Ms. Ma Gui Fang and Doctor Chan, Peter Yat Tung will retire by rotation and will offer themselves for re-election at the forthcoming annual general meeting.

## Report of the Directors (continued)

In accordance with article 86 of the Company's articles of association, Mr. Wang Yong, Mr. Feng Jue Min and Mr. Zhang Gong, being directors appointed by the directors of the Company after the Company's last annual general meeting held on 28 May 2004, will hold office until the forthcoming annual general meeting and, being eligible, offers himself for re-appointment as director.

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. Ms. Ma Gui Fang commenced from 13 August 2002, Mr. Zhu Guang Bo commenced from 9 March 2004 and Mr. Wang Yong commenced from 28 May 2004.

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 24 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2004, the interest of the directors and the chief executive 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 was as follows:

### Long positions

Name of director or chief executive	Personal interests	No. of shares held		Other interests
		Family interests	Corporate interests	
Mr. Zhu Guang Bo	–	–	204,400,000 (Note 1)	–

#### Note:

1. 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 31 December 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.

## Report of the Directors (continued)

**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.

**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 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 was 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.

<b>Name</b>	<b>Capacity</b>	<b>No. of shares</b>	<b>Approximate percentage of holding</b>
Ms. Lu Wen Bin	Beneficial owner	241,561,800	15.38%
World Develop Limited ( <i>Note 1</i> )	Beneficial owner	204,400,000	13.01%
Mr. Zhu Guang Bo ( <i>Note 1 and 2</i> )	Held by controlled corporation	204,400,000	13.01%

*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.

Save as disclosed above, as at 31 December 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 was 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 31 December 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 purchased, redeemed or sold any of the Company's listed securities during the year.

## CONNECTED AND RELATED PARTY TRANSACTION

During the year, a director, Mr. Zhu Guang Bo advanced HK\$744,000 to the Company. The advances are unsecured, interest free and are repayable on demand. As at 31 December 2004, the amount had not been repaid.

## 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 31 December 2004 were based on 20%, 20% and 22.5% (2003: 20%, 20% and 22.5%) respectively, of the average wages of workers in Beijing, Wuhan and Shanghai (2003: Beijing, Wuhan and Shanghai), the cities where the Group's PRC's staff are located, and amounted to approximately a total of HK\$71,000 (2003: HK\$120,000).

## Report of the Directors (continued)

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\$45,000 (2003: HK\$113,000).

### 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.

### CORPORATE GOVERNANCE

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures for the year ended 31 December 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 comprise Doctor Chan, Peter Yat Tung and Mr. Feng Jue Min and Mr. Zhang Gong, 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 31 December 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.

### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Horwath Hong Kong CPA Limited.

By Order of the Board  
**Wang Yong**  
*Chairman*

Hong Kong, 29 March 2005

## Report of the Auditors



### Horwath Hong Kong CPA Limited

2001 Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Telephone : (852) 2526 2191  
Facsimile : (852) 2810 0502  
www.horwath.com.hk

### TO THE SHAREHOLDERS OF LINEFAN TECHNOLOGY HOLDINGS LIMITED (藍帆科技控股有限公司)

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

We have audited the financial statements on pages 26 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion 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 Institute of Certified Public 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 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 of the Group as at 31 December 2004 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.

### HORWATH HONG KONG CPA LIMITED

*Certified Public Accountants*  
Hong Kong, 29 March 2005

**Chan Kam Wing, Clement**  
Practising Certificate number P02038

## Consolidated Income Statement

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	6,181	14,421
Cost of sales		(2,825)	(5,380)
Gross profit		3,356	9,041
Other operating income		70	482
Distribution costs		(3,052)	(2,352)
Administrative expenses		(33,803)	(34,295)
Amortisation of goodwill		(972)	(489)
Impairment loss recognised in respect of goodwill on subsidiaries		–	(3,818)
Loss from operations	6	(34,401)	(31,431)
Interest on bank borrowings		(93)	(77)
Share of results of associates		(94)	(1,640)
Share of result of a jointly controlled entity		(3,203)	13
Loss on disposal of associates		(11)	–
Gain/(loss) on disposal of subsidiaries	27	30	(127)
Impairment loss recognised in respect of goodwill on an associate		–	(4,351)
Loss before taxation		(37,772)	(37,613)
Income tax expense	9	–	–
Loss before minority interest		(37,772)	(37,613)
Minority interest		1,279	582
Loss for the year		(36,493)	(37,031)
Dividends	10	–	–
Loss per share			
Basic (HK cents)	11	(2.84)	(3.99)
Diluted (HK cents)		N/A	N/A

The notes on pages 33 to 65 form part of these financial statements.

## Consolidated Balance Sheet

At 31 December 2004 (Expressed in Hong Kong dollars)

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	15,766	3,782
Intangible assets	13	2,321	10,158
Interests in associates	15	–	105
Interest in a jointly controlled entity	16	–	4,704
Investment in securities	17	–	–
Goodwill	18	22,360	–
		<b>40,447</b>	18,749
<b>Current assets</b>			
Inventories	19	7	94
Trade receivables	20	1,985	7,610
Other receivables, deposits and prepayments	21	4,520	19,390
Amount due from an associate	22	–	2,064
Cash and bank balances		582	579
		<b>7,094</b>	29,737
<b>Current liabilities</b>			
Trade payables		530	–
Other payables and accrued charges		2,568	4,371
Short-term bank borrowings – unsecured		–	1,063
Amounts due to directors		743	–
Income tax payable		–	–
		<b>3,841</b>	5,434
<b>Net current assets</b>		<b>3,253</b>	24,303
<b>Total assets less current liabilities carried forward</b>		<b>43,700</b>	43,052

**Consolidated Balance Sheet** (continued)

At 31 December 2004 (Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>Total assets less current liabilities brought forward</b>		<b>43,700</b>	43,052
<b>Capital and reserves</b>			
Share capital	23	<b>15,707</b>	9,291
Reserves		<b>23,991</b>	33,761
Shareholders' funds		<b>39,698</b>	43,052
<b>Minority interests</b>		<b>4,002</b>	–
		<b>43,700</b>	43,052

These financial statements were approved and authorised for issue by the board of directors on 29 March 2005.

**Wang Yong**  
*Director*

**Zhu Guang Bo**  
*Director*

The notes on pages 33 to 65 form part of these financial statements.

## Balance Sheet

At 31 December 2004 (Expressed in Hong Kong dollars)

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	14	41,920	53,237
Investments in securities	17	–	–
		<u>41,920</u>	<u>53,237</u>
<b>Current assets</b>			
Other receivables, deposits and prepayments		155	–
Bank balances		7	3
		<u>162</u>	<u>3</u>
<b>Current liabilities</b>			
Accrued charges		698	1,568
Short-term bank borrowings – unsecured		–	1,063
		<u>698</u>	<u>2,631</u>
<b>Net current liabilities</b>		<u>(536)</u>	<u>(2,628)</u>
		<u>41,384</u>	<u>50,609</u>
<b>Capital and reserves</b>			
Share capital	23	15,707	9,291
Reserves	24	25,677	41,318
<b>Shareholders' funds</b>		<u>41,384</u>	<u>50,609</u>

These financial statements were approved and authorised for issue by the board of directors on 29 March 2005.

**Wang Yong**  
Director

**Zhu Guang Bo**  
Director

The notes on pages 33 to 65 form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	Share capital HK\$'000 (note 23)	Share premium HK\$'000	Capital reserve HK\$'000 (note 24)	Special reserve HK\$'000 (note 24)	PRC statutory reserve HK\$'000 (note 24)	Exchange reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 31 December 2002	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293
Exchange adjustment (not recognised in income statement)	-	-	-	-	-	(210)	-	(210)
Loss for the year	-	-	-	-	-	-	(37,031)	(37,031)
At 31 December 2003	9,291	28,408	3,970	3,324	11,623	18	(13,582)	43,052
Issue of new shares	6,416	27,307	-	-	-	-	-	33,723
Share issue expenses	-	(599)	-	-	-	-	-	(599)
Exchange adjustment (not recognised in income statement)	-	-	-	-	-	15	-	15
Loss for the year	-	-	-	-	-	-	(36,493)	(36,493)
<b>At 31 December 2004</b>	<b>15,707</b>	<b>55,116</b>	<b>3,970</b>	<b>3,324</b>	<b>11,623</b>	<b>33</b>	<b>(50,075)</b>	<b>39,698</b>

The notes on pages 33 to 65 form part of these financial statements.



## Consolidated Cash Flow Statement

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	2004 HK\$'000	2003 HK\$'000
<b>Cash flows from operating activities</b>		
Loss from operations	(34,401)	(31,431)
Adjustment for:		
Amortisation of goodwill	972	489
Allowance for bad and doubtful debts	3,868	10,076
Depreciation	4,992	1,898
Amortisation of intangible assets	3,227	2,337
Interest income	(14)	(159)
Loss on disposal of property, plant and equipment	3,968	1,520
Intangible assets written off	7,386	–
Impairment loss on investment in securities	–	250
Impairment loss recognised in respect of goodwill on subsidiaries	–	3,818
Operating cash flows before movements in working capital changes	(10,002)	(11,202)
Decrease in inventories	87	4,062
(Increase)/decrease in trade receivables	(2,050)	564
Decrease/(increase) in other receivables, deposits and prepayments	14,106	(6,444)
Decrease in trade payables	(4,055)	–
Increase/(decrease) in other payables and accrued charges	50	(5,836)
Decrease in amount due from an associate	2,486	–
Cash generated from/(used in) operations	622	(18,856)
Interest received	14	159
PRC income tax paid	–	(414)
<b>Net cash generated from/(used in) operating activities</b>	<b>636</b>	<b>(19,111)</b>

**Consolidated Cash Flow Statement** (continued)

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(16,962)</b>	(99)
Purchase of intangible assets		<b>(2,362)</b>	(5,329)
Investment in a jointly controlled entity		–	(4,691)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	26	<b>407</b>	(1,580)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	27	<b>1,517</b>	(343)
Acquisition of investment in securities		–	(250)
Advance to an associate		–	(179)
Proceeds from disposal of property, plant and equipment		<b>3,885</b>	4
Advance to shareholders		<b>(109)</b>	–
<b>Net cash used in investing activities</b>		<b>(13,624)</b>	(12,467)
<b>Cash flows from financing activities</b>			
Bank borrowings raised		–	2,500
Contributions from minority interests		–	468
Repayment of bank borrowings		<b>(3,881)</b>	(1,437)
Interest paid on bank borrowings		<b>(96)</b>	(77)
Issue for new shares		<b>16,741</b>	–
Share issue expenses		<b>(599)</b>	–
Advance from directors		<b>743</b>	–
<b>Net cash generated from financing activities</b>		<b>12,908</b>	1,454
<b>Net decrease in cash and cash equivalents</b>		<b>(80)</b>	(30,124)
<b>Cash and cash equivalents at beginning of year</b>		<b>579</b>	30,847
<b>Effect of foreign exchange rate changes</b>		<b>83</b>	(144)
<b>Cash and cash equivalents at end of year</b>		<b>582</b>	579

The notes on pages 33 to 65 form part of these financial statements.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars)

### 1. ORGANISATION AND OPERATIONS

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

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

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 Institute of Certified Public Accountants.

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

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

### 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are presented.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation of financial statements

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.

#### (b) Basis of consolidation

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

The results of subsidiaries acquired and 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.

#### (c) 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 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.

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**3. PRINCIPAL ACCOUNTING POLICIES** (continued)**(d) Investments in subsidiaries**

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

**(e) Interests in associates**

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

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.

**(f) 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.

**(g) 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.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (g) Investments in securities (continued)

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.

#### (h) Revenue recognition

Service fees from software development and system application are derived from services for providing customers with software application and technology. Service fees are recognised when services are provided.

Revenues from provision of voice search engine portal are recognised in accordance with the terms of agreements.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### (i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the rate of 20% per annum.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### (j) Intangible assets

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

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**3. PRINCIPAL ACCOUNTING POLICIES** (continued)**(k) 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.

**(l) 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. Taxation 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.

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 future 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.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (l) Taxation (continued)

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 future 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.

#### (m) 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 retranslated 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.

#### (n) 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 loss is 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.



**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**3. PRINCIPAL ACCOUNTING POLICIES** (continued)**(o) 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.

**(p) 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.

**(q) 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** (continued)

(Expressed in Hong Kong dollars)

**4. TURNOVER**

Turnover represents sales values of KM software systems and voice portal software less discounts and value added tax as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
KM Systems		
– Non-structural knowledge integration systems	<b>3,153</b>	10,680
– Structural information integration and analysis systems	<b>314</b>	1,988
KM related network application systems	<b>265</b>	986
Other system and software related services	<b>91</b>	767
Voice portal gateway facilities in communication and voice portal application software	<b>2,358</b>	–
	<b>6,181</b>	14,421

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary of details of the business segments are as follows:

- (a) the KM systems segment engages in the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology; and
- (b) The voice portal segment engages in the provision of voice search engine portal.

In determining the Group's geographical segment information based on location of assets is similar to that of the location of its customers.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments:

	KM Systems		Voice portal		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Turnover	<u>3,823</u>	<u>14,421</u>	<u>2,358</u>	<u>–</u>	<u>6,181</u>	<u>14,421</u>
Segment results	<u>(26,925)</u>	<u>(24,202)</u>	<u>(3,253)</u>	<u>–</u>	<u>(30,178)</u>	<u>(24,202)</u>
Unallocated corporate expenses					<u>(4,223)</u>	<u>(7,229)</u>
Loss from operations					<u>(34,401)</u>	<u>(31,431)</u>
Interest of bank borrowings					<u>(93)</u>	<u>(77)</u>
Share of results of associates					<u>(94)</u>	<u>(1,640)</u>
Share of result of a jointly controlled entity					<u>(3,203)</u>	<u>13</u>
Gain/(loss) on disposal of subsidiaries					<u>30</u>	<u>(127)</u>
Loss on disposal of associates					<u>(11)</u>	<u>–</u>
Impairment loss recognized in respect of goodwill on an associate					<u>–</u>	<u>(4,351)</u>
Loss before minority interest					<u>(37,772)</u>	<u>(37,613)</u>

Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	KM Systems		Voice portal		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets:						
Segment assets	<u>9,561</u>	<u>46,205</u>	<u>37,496</u>	<u>–</u>	<u>47,057</u>	46,205
Unallocated corporate assets					<u>484</u>	<u>2,281</u>
Consolidated total assets					<u>47,541</u>	<u>48,486</u>
Liabilities:						
Segment liabilities	<u>2,353</u>	<u>3,062</u>	<u>743</u>	<u>–</u>	<u>3,096</u>	3,062
Unallocated corporate liabilities					<u>745</u>	<u>2,372</u>
					<u>3,841</u>	<u>5,434</u>
Other information:						
Allowance for bad and doubtful debts	<b>3,775</b>	10,076	<b>93</b>	–	<b>3,868</b>	10,076
Amortisation of goodwill	<b>(5)</b>	969	<b>972</b>	–	<b>967</b>	969
Capital expenditures	<b>18,876</b>	12,588	<b>448</b>	–	<b>19,324</b>	12,588
Depreciation	<b>3,742</b>	1,898	<b>1,250</b>	–	<b>4,992</b>	1,898
Amortisation of intangible assets	<b>3,036</b>	2,337	<b>191</b>	–	<b>3,227</b>	2,337
Impairment loss recognised in respect of goodwill	<u>–</u>	<u>8,169</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,169</u>

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## Geographic segments

The following table provides an analysis of the Group's turnover, results, assets and expenditure information by geographical market:

	Hong Kong		PRC other than Hong Kong		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	<u>-</u>	<u>-</u>	<u>6,181</u>	<u>14,421</u>	<u>6,181</u>	<u>14,421</u>
Loss from operations	<u>-</u>	<u>-</u>	<u>(34,401)</u>	<u>(31,431)</u>	<u>(34,401)</u>	<u>(31,431)</u>
Assets:						
Segment assets	<u>484</u>	<u>2,281</u>	<u>24,697</u>	<u>39,053</u>	<u>25,181</u>	<u>41,334</u>
Other information:						
Capital expenditures	<u>-</u>	<u>18</u>	<u>19,324</u>	<u>12,570</u>	<u>19,324</u>	<u>12,588</u>

Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

6. LOSS BEFORE TAXATION

	2004 HK\$'000	2003 HK\$'000
Loss before taxation is arrived at after charging:		
Directors' remuneration (Note 7):		
Fees	–	33
Other emoluments	231	837
Retirement benefits scheme contributions	4	30
Retirement benefits scheme contributions (excluding directors)	109	203
Other staff costs	2,625	4,257
	<b>2,969</b>	5,360
Auditors' remuneration	568	511
Allowance for bad and doubtful debts	3,868	10,076
Depreciation	4,992	1,898
Amortisation of intangible assets (included in administrative expenses)	3,227	2,337
Impairment loss on investment in securities	–	250
Loss on disposal of property, plant and equipment	3,968	1,520
Research and development costs	2,816	6,503
Intangible assets written off	7,386	–
and after crediting:		
Interest income from bank deposits	14	159

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 7. DIRECTORS' REMUNERATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Executive directors:		
Directors' fees	–	–
Salaries and other benefits	161	784
Contributions to retirement benefits pension schemes	4	28
Independent non-executive directors:		
Directors' fees	–	–
Salaries and other benefits	60	–
Non-executive directors:		
Directors' fees	–	33
Salaries and other benefits	10	53
Contributions to retirement benefits pension schemes	–	2
Total emoluments	<u>235</u>	<u>900</u>
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Director A	22	522
Director B	–	84
Director C	–	55
Director D	15	–
Director E	90	206
Director F	10	–
Director G	12	–
Director H	10	33
Director I	37	–
Director J	17	–
Director K	6	–
Director L	16	–
	<u>235</u>	<u>900</u>

No directors waived any emoluments for both years.

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**8. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, one (2003: two) was a director of the Company whose emoluments are included in the disclosure in note 7 above. The emoluments of the remaining four (2003: three) individuals were as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Employees:		
Basic salaries and allowances	<b>1,005</b>	1,151
Retirement benefit scheme contributions	<b>36</b>	54
	<b>1,041</b>	1,205

The emoluments of each of the above employees were less than HK\$1,000,000 during each of the year ended 31 December 2004 and 2003.

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.



**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**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 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 year as Beijing Linefan has incurred a loss. Moreover, Unlimited Business Opportunity Communication Technology Company Limited ("UBO"), another PRC operating subsidiary of the Group, was officially recognised as Hi-Tech Enterprise by the Beijing Municipal Government in November 2001, and therefore is eligible to receive preferential treatment in form of a concession tax rate of 15%. It is also eligible for full exemption from income tax for its first three years of operations. No provision for PRC income tax has been made for the year as UBO incurred a loss. Similarly, Beijing Linefan Silver-Soft Technology Company Limited ("Beijing Silver-Soft"), another PRC operating subsidiary of the Group, was also officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 2002, and therefore is also eligible to receive preferential treatment in form of a concession tax rate of 15%. Moreover, it is also eligible for full exemption from income tax for its first three years of operations and a 50% relief on the income tax that would otherwise be charged for the 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 all incurred losses and no provision for PRC income tax are required for the year. These losses can be carried forward to offset against future profits for a period of five years.

Certain tax losses in the year 2004 and 2003 cannot be carried forward. At the balance sheet date, the Group has unused tax losses of HK\$6,208,000 (2003: HK\$6,514,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

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** (continued)

(Expressed in Hong Kong dollars)

**9. INCOME TAX EXPENSE** (continued)

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	<b>(37,772)</b>	(37,613)
Tax at the domestic income tax rate of 33% (2003: 33%)	<b>(12,465)</b>	(12,412)
Tax effect of expenses that are not deductible in determining taxable profit	<b>3,003</b>	4,817
Effect of different tax rates of operating in other jurisdictions	<b>658</b>	1,182
Utilisation of tax loss not previously recognised	–	(6)
Tax effect of tax losses not recognised	<b>8,804</b>	6,419
Tax expense and effective tax rate for the year	<b>–</b>	–

**10. DIVIDEND**

No dividend was paid or proposed during 2004, nor has any dividend been proposed since the balance sheet date (2003: Nil).

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**11. LOSS PER SHARE**

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss for the year and loss of the purpose of the basic loss per share	<u><b>(36,493)</b></u>	<u>(37,031)</u>
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>1,285,303,680</b>	929,090,000
Effect of dilutive potential ordinary shares on options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u><b>1,285,303,680</b></u>	<u>929,090,000</u>

The computation of diluted earnings per share for the year ended 31 December 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 for shares.

Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer, network and related equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>The Group</b>					
Cost:					
At 31 December 2003	403	1,678	5,951	303	8,335
Exchange adjustments	–	2	6	–	8
Additions	106	5	16,851	–	16,962
Acquisition of subsidiaries	–	246	11,697	357	12,300
Disposal of subsidiaries	(27)	(69)	(475)	–	(571)
Disposals	(362)	(1,078)	(10,979)	(303)	(12,722)
<b>At 31 December 2004</b>	<b>120</b>	<b>784</b>	<b>23,051</b>	<b>357</b>	<b>24,312</b>
Depreciation:					
At 31 December 2003	168	734	3,544	107	4,553
Exchange adjustments	–	1	6	–	7
Provided for the year	24	330	4,577	61	4,992
Acquisition of subsidiaries	–	162	3,575	298	4,035
Eliminated on disposal of subsidiaries	(11)	(31)	(130)	–	(172)
Eliminated on disposals	(175)	(610)	(3,952)	(132)	(4,869)
<b>At 31 December 2004</b>	<b>6</b>	<b>586</b>	<b>7,620</b>	<b>334</b>	<b>8,546</b>
Net book values:					
<b>At 31 December 2004</b>	<b>114</b>	<b>198</b>	<b>15,431</b>	<b>23</b>	<b>15,766</b>
At 31 December 2003	235	944	2,407	196	3,782

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**13. INTANGIBLE ASSETS****The Group**

	<b>Computer software</b> <i>HK\$'000</i>
Cost:	
At 1 January 2004	12,489
Additions in the year	2,362
Acquisition of a subsidiary	4,488
Disposals	(12,501)
Exchange adjustments	12
<b>At 31 December 2004</b>	<b><u>6,850</u></b>
Amortisation:	
At 1 January 2004	2,331
Provided for the year	3,227
Acquisition of a subsidiary	4,077
Eliminated on disposal	(5,109)
Exchange adjustments	3
<b>At 31 December 2004</b>	<b><u>4,529</u></b>
Net book value:	
<b>At 31 December 2004</b>	<b><u><u>2,321</u></u></b>
At 31 December 2003	<u><u>10,158</u></u>

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	26,074	26,074
Amount due from a subsidiary	55,846	27,163
	81,920	53,237
Less: Provision	(40,000)	–
	41,920	53,237

The amount due from a subsidiary is unsecured and interest free.

Details of the subsidiaries of the Company as at 31 December 2004 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
Chineseroad Incorporated 中國之路 (Note)	Limited liability	The British Virgin Islands ("BVI")	US\$67,200	100%	Investment holding
Beijing Linefan Zhihui Technology Co. Ltd. (formerly known as Beijing Hangfan Technology Company Limited) 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

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 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
Beijing Linefan Technology Company Limited 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 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
Unlimited Business Opportunity Communication Technology Company Limited 北京無限商機通信技術有限公司	EJV	PRC	RMB35,000,000	51.43%	Provision of voice search engine portal
Ha Er Bin Runke Communication Technology Company Limited 哈爾濱潤科通信技術有限公司	EJV	PRC	RMB10,000,000	26.23%	Provision of voice search engine portal

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

Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 15. INTERESTS IN ASSOCIATES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets of associates	–	206
Goodwill (Note)	–	–
Negative goodwill (Note)	–	(101)
	–	105
	–	105

Note:

	The Group	
	Goodwill HK\$'000	Negative goodwill HK\$'000
Gross amount:		
At 1 January 2004	4,908	(115)
Disposal	(4,908)	115
<b>At 31 December 2004</b>	–	–
	–	–
Amortisation and impairment:		
At 1 January 2004	4,908	(14)
Realised for the year	–	(5)
Disposal	(4,908)	19
<b>At 31 December 2004</b>	–	–
	–	–
Carrying amount:		
<b>At 31 December 2004</b>	–	–
	–	–
At 31 December 2003	–	(101)
	–	(101)

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

During the year, all the associates were disposed of by the Group.



## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY**

	<b>The Group</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets of a jointly controlled entity	–	4,704

**17. INVESTMENT IN SECURITIES**

	<b>The Group and the Company</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity interest:		
Cost	–	250
Less: Impairment loss	–	(250)
	–	–

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**18. GOODWILL****The Group**

	<i>HK\$'000</i>
<hr/>	
Cost:	
At 1 January 2004	4,880
Additions ( <i>Note 26</i> )	23,332
Disposals	(2,967)
Exchange adjustments	5
	<hr/>
<b>At 31 December 2004</b>	<b>25,250</b>
	<hr/>
Amortisation and impairment:	
At 1 January 2004	4,880
Exchange adjustments	5
Provided for the year	972
Disposals	(2,967)
	<hr/>
<b>At 31 December 2004</b>	<b>2,890</b>
	<hr/>
Net book value:	
<b>At 31 December 2004</b>	<b>22,360</b>
	<hr/> <hr/>
At 31 December 2003	–
	<hr/> <hr/>

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

The directors of the Company have reviewed the carrying amount of goodwill arising from acquisition of subsidiaries during the year which are mainly engaged in the development of voice search engine portal, no impairment loss has arisen. (2003: HK\$3,818,000)

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**19. INVENTORIES**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Finished goods for resale:		
Hardwares	–	94
Low consumables	<b>7</b>	–
	<b>7</b>	94

As at 31 December 2004 and 2003, all the inventories were carried at cost.

**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	
	2004 HK\$'000	2003 HK\$'000
0-60 days	<b>1,985</b>	263
61-90 days	–	1,398
>90 days	–	5,949
	<b>1,985</b>	7,610

**21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

Included in the amount as at 31 December 2003 were deposits of approximately HK\$19,066,000 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 had been fully refunded during the year ended 31 December 2004.

**22. AMOUNT DUE FROM AN ASSOCIATE**

The balance is unsecured, interest-free and is repayable on demand.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**23. SHARE CAPITAL**

	Number of shares	HK\$'000
Authorised:		
At 1 January 2002	3,500,000	350
Subdivided into 10 shares of \$0.01 each on 24 January 2002	31,500,000	–
Increase in authorised share capital on 24 January 2002	<u>4,965,000,000</u>	<u>49,650</u>
At 31 December 2003 and 31 December 2004	<u><u>5,000,000,000</u></u>	<u><u>50,000</u></u>
	Number of shares	HK\$'000
Issued and fully paid:		
At 1 January 2002	67,200	–
Subdivided into 10 shares of \$0.01 each on 24 January 2002	<u>604,800</u>	<u>–</u>
	672,000	–
Credit as fully paid up	–	7
Issue of shares by way of capitalisation	708,418,000	7,084
Issue of shares under placing	<u>220,000,000</u>	<u>2,200</u>
At 31 December 2003	929,090,000	9,291
Issue of shares under private placements (Note a)	427,371,800	4,274
Issue of shares on exercise of options (Note b)	92,909,000	929
Issue of shares on acquisition of a subsidiary (Note c)	<u>121,293,800</u>	<u>1,213</u>
At 31 December 2004	<u><u>1,570,664,600</u></u>	<u><u>15,707</u></u>

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**23. SHARE CAPITAL** (continued)

- (a) On 16 January 2004, the Company entered into a conditional subscription agreement with World Develop Limited (“World Develop”) and allotted 185,810,000 shares of the Company at a price of HK\$0.031 per share to World Develop. On 6 October 2004, the Company entered into a subscription agreement with an independent third party (the “Subscriber”) and allotted 241,561,800 shares of the Company at a price of HK\$0.032 per share to the Subscriber. The total net proceeds of approximately HK\$13,490,000 were used as general working capital of the Group and for the development of technology in voice search engine.
- (b) During the year, options were exercised to subscribe for 92,909,000 shares in the Company at a consideration of HK\$0.035 per share and totalling approximately HK\$3,252,000.
- (c) On 19 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 Zhutong”) 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 acquired 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 Zhutong and Nandu Group. The consideration of the acquisition amounted to approximately HK\$25.14 million (RMB26,646,000) and 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. On 21 July 2004, the Company issued Consideration Shares valued at of HK\$0.14 per share as to 20,215,633 shares to Fuzhou Zhutong shares and 101,078,167 shares to Nandu Group respectively.

**24. SHARE PREMIUM AND RESERVES****The Group**

The capital reserve represents the Group’s share of the contributions made by the minority shareholders to certain subsidiaries of the Group in the PRC.

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.

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**24. SHARE PREMIUM AND RESERVES (continued)****The Group (continued)**

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

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>The Company</b>				
At 31 December 2002	28,408	26,067	(2,645)	51,830
Loss for the year	—	—	(10,512)	(10,512)
At 31 December 2003	28,408	26,067	(13,157)	41,318
Issue of new shares	27,307	—	—	27,307
Share issue expenses	(599)	—	—	(599)
Loss for the year	—	—	(42,349)	(42,349)
<b>At 31 December 2004</b>	<b><u>55,116</u></b>	<b><u>26,067</u></b>	<b><u>(55,506)</u></b>	<b><u>25,677</u></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 31 December 2004 represent the aggregate of share premium, contributed surplus and accumulated losses and amounted HK\$25,677,000 (2003: HK\$41,318,000).

## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 25. SHARE OPTIONS

The Company has adopted a share option scheme on 24 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 on the Stock Exchange's daily quotations sheet on the date of granting of the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of granting of the options; and (iii) the nominal value of a share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24 January 2002.

An aggregate of 92,900,000 options each with an exercise price of HK\$0.183 for one ordinary share were granted by the Company on 15 November 2002 pursuant to the Share Option Scheme to selected employees of the Group. During the year, 74,900,000 options have been lapsed. No options have been exercised up to 31 December 2004 and 18,000,000 options remain outstanding as at 31 December 2004.

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 23 April 2003, so that the total number of shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option schemes of the Company has been re-set at 10% of the shares of the Company in issue as at the date of approval of the "refreshed" limit.

On 27 January 2004, a total of 92,909,000 options were granted at an exercise price of HK\$0.035 each. All these options were exercised during the year.

Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

## 26. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 51.43% of the issued share capital of Unlimited Business Opportunity Communication Technology Company Limited and indirectly acquired 26.23% of the issued share capital of Ha Er Bin Runke Communication Technology Company Limited, for a total consideration of HK\$25,025,000. This transaction has been accounted for by the acquisition method of accounting. The details of assets and liabilities acquired are as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	8,265	–
Intangible assets	411	7,160
Inventories	–	94
Trade receivables	1,112	–
Other receivables, deposits and prepayments	6,983	190
Cash and bank balances	407	297
Short term bank borrowing	(2,818)	–
Trade payables	(4,585)	–
Other payables and accrued charges	(2,800)	(5,864)
Minority interests	(5,282)	–
	<u>1,693</u>	<u>1,877</u>
Goodwill	23,332	–
Total consideration	<u>25,025</u>	<u>1,877</u>
Satisfied by:		
Issue of new shares, net of expenses (note 23(c))	16,905	–
Accounts receivable	8,120	–
Cash	–	1,877
	<u>25,025</u>	<u>1,877</u>
Analysis of the net outflow of cash and cash equivalents in connection with the acquired subsidiary:		
Cash consideration paid	–	(1,877)
Cash and bank balances acquired	407	297
Net inflow/(outflow) of cash and cash equivalents	<u>407</u>	<u>(1,580)</u>

The subsidiaries acquired during the year contributed HK\$4,883,000 to the Group's net operating cash flows, utilised HK\$448,000 for investing activities and HK\$2,816,000 in financing activities.



## Notes to the Financial Statements (continued)

(Expressed in Hong Kong dollars)

**27. DISPOSAL OF SUBSIDIARIES**

During the year, the Group disposed of its equity interests in certain subsidiaries. The major elements of assets, liabilities and minority interests of these companies, in aggregate, are summarised as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	399	56
Interest in a jointly controlled entity	1,504	–
Inventories	–	19
Trade receivables	670	–
Other receivables, deposits and prepayments	3,988	31
Bank balances and cash	812	387
Other payables and accrued charges	(4,652)	–
Bank overdrafts	–	–
Amount due to an associate	(422)	–
Minority interest	–	(322)
	<u>2,299</u>	<u>171</u>
Gain/(loss) on disposal	<u>30</u>	<u>(127)</u>
Total cash consideration on disposal	<u><u>2,329</u></u>	<u><u>44</u></u>
Analysis of the net inflow/(outflow) of cash and cash equivalents in connection with the disposed subsidiaries:		
Cash consideration received	2,329	44
Bank balances and cash disposed of	(812)	(387)
Net inflow/(outflow) of cash and cash equivalents	<u><u>1,517</u></u>	<u><u>(343)</u></u>

The subsidiaries disposed of during the year utilised HK\$16,562,000 and HK\$10,532,000 of the Group's cash flows from operating activities and investing activities.

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**28. OPERATING LEASE COMMITMENT**

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Minimum lease payments paid under operating leases in respect of office premises during the year	<b>752</b>	1,224

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

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>564</b>	583
In the second to fifth year inclusive	<b>18</b>	71
	<b>582</b>	654

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 contributions for the year ended 31 December 2004 were based on 20%, 20% and 22.5% (2003: 20%, 20% and 22.5%), respectively, of the average wages of workers in Beijing, Wuhan and Shanghai (2003: Beijing, Wuhan and Shanghai), the cities where the Group's PRC's staff are located, and amounted to approximately HK\$71,000 (2003: HK\$120,000).

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\$45,000 (2003: HK\$113,000).

**Notes to the Financial Statements** (continued)

(Expressed in Hong Kong dollars)

**30. POST BALANCE SHEET EVENT**

The Company entered into a conditional underwriting agreement dated 18 January 2005 and a conditional supplemental agreement dated 18 February 2005 with Ms. Lu Wen Bin, World Develop Limited and Mr. Sun Gang, collectively being the underwriting shareholders, in respect of the rights issue of not less than 78,533,230 rights shares and not more than 79,433,230 rights shares at a price of HK\$0.10 per share.

## Financial Summary

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

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

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<b>6,181</b>	14,421	51,024	26,680	8,603
Cost of sales	<b>(2,825)</b>	(5,380)	(3,958)	(1,664)	(990)
Gross profit	<b>3,356</b>	9,041	47,066	25,016	7,613
Other operating income	<b>70</b>	482	239	169	4,085
Distribution costs	<b>(3,052)</b>	(2,352)	(1,029)	(127)	(2,952)
Administrative expense	<b>(33,803)</b>	(34,295)	(27,187)	(9,173)	(4,297)
Amortisation of goodwill	<b>(972)</b>	(489)	(428)	(462)	(158)
Impairment loss recognised in respect of goodwill on subsidiaries	<b>–</b>	(3,818)	–	–	–
(Loss)/profit from operations	<b>(34,401)</b>	(31,431)	18,661	15,423	4,291
Interest on bank borrowings	<b>(93)</b>	(77)	(7)	(13)	–
Share of results of associates	<b>(94)</b>	(1,640)	(477)	–	(19)
Share of result of a jointly controlled entity	<b>(3,203)</b>	13	–	–	–
Gain/(loss) on disposal of subsidiaries	<b>30</b>	(127)	(2,199)	–	–
Loss on disposal of associates	<b>(11)</b>	–	–	–	–
Impairment loss recognised in respect of goodwill on an associate	<b>–</b>	(4,351)	–	–	–
(Loss)/profit before taxation	<b>(37,772)</b>	(37,613)	15,978	15,410	4,272
Income tax expense	<b>–</b>	–	(414)	–	–
(Loss)/profit before minority interests	<b>(37,772)</b>	(37,613)	15,564	15,410	4,272
Minority interests	<b>1,279</b>	582	790	(253)	279
(Loss)/profit for the year	<b>(36,493)</b>	(37,031)	16,354	15,157	4,551

## Financial Summary

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

### Assets and liabilities

	2004 HK\$'000	Year ended 31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	<b>40,447</b>	18,749	17,636	7,221	6,995
Current assets	<b>7,094</b>	29,737	67,850	29,062	9,481
Current liabilities	<b>3,841</b>	5,434	4,757	9,780	5,568
Net current assets	<b>3,253</b>	24,303	63,093	19,282	3,913
Net assets	<b>43,700</b>	43,052	80,729	26,503	10,908

#### Notes:

1. The summary of the consolidated results of the Group for the years ended 31 December 2000 and 2001 have been extracted from the published financial information as set out in the prospectus of the Company dated 28 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 31 December 2004 and 2003 are set out on page 26 of the annual report.
2. The consolidated results of the Group for the year ended 31 December 2002 and the assets and liabilities as at 31 December 2002 of the Group have been extracted from the Company's published annual report.
3. The consolidated balance sheet as at 31 December 2000 and 2001 have been extracted from the published financial information of the Company for the years ended 31 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 31 December 2004 and 2003 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 shareholders of Linefan Technology Holdings Limited (the "**Company**") will be held at 1901 Henan Building, 90 Jaffe Road, Wanchai, Hong Kong on 23 May 2005 (Monday) at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company together with the reports of the directors ("**Directors**") and auditors thereon for the year ended 31st December 2004;
2.
  - (a) To re-elect Ms. Ma Gui Fang as Director;
  - (b) To re-elect Mr. Chan Yat Tung Peter as Director;
  - (c) To re-appoint Wang Yong as Director;
  - (d) To re-appoint Feng Jue Min as Director;
  - (e) To re-appoint Zhang Gong as Director; and
  - (f) To authorize the board of Directors ("**Board**") to fix the remuneration of the Directors;
3. To re-appoint Horwath Hong Kong CPA Limited as 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 ordinary Resolutions:

4. "**THAT**"
  - (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities ("**GEM Listing Rules**") on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors 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

## Notice of Annual General Meeting (continued)

- 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 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 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
- (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

## Notice of Annual General Meeting (continued)

(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 during the Relevant Period as defined in the foregoing Resolution 5(d)(aa) of all powers of the Company to repurchase issued shares in the share capital of the Company on the GEM 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



**Notice of Annual General Meeting** (continued)

- (c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as in the foregoing Resolution 5(d) (aa)."
6. **"THAT"** conditional upon the foregoing Resolutions Nos. 5 and 6 being passed, the general mandate granted to the Directors to allot, issue or otherwise deal with additional shares of the Company pursuant to Resolution No. 5 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. 6, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of the said Resolution"

By Order of the Board  
**Linefan Technology Holdings Limited**  
**Wang Yong**  
*Chairman and Executive Director*

Hong Kong, 29 March 2005

*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 the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
3. 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.



## Notice of Annual General Meeting (continued)

4. Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting.
5. As at the date of this announcement, the Board comprise three executive Directors, being Mr. Wang Yong, Ms. Ma Gui Fang, Mr. Zhu Guang Bo, and three independent non-executive Directors, being Mr. Chan Yat-Tung Peter, Mr. Feng Jue Min and Mr. Zhang Gong.