



藍帆科技控股有限公司<sup>®</sup>  
**LINEFAN TECHNOLOGY HOLDINGS LIMITED**  
(Incorporated in the Cayman Islands with limited liability)

 Interim Report **2005**

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

## **HIGHLIGHTS**

### **Financial Highlights**

Unaudited turnover increased to approximately HK\$3,294,000 for the six months ended 30 June 2005 representing increase of approximately 71.3% as compared to the corresponding period in 2004.

Unaudited net loss attributable to shareholders amounted to approximately HK\$5,648,000 for the six months ended 30 June 2005.

The board of directors (the "Board") of the Linefan Technology Holdings Limited (the "Company") does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

## UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004.

### CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2005	2004	2005	2004
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	2	<b>1,803</b>	1,070	<b>3,294</b>	1,923
Cost of sales		<b>(1,289)</b>	(289)	<b>(2,492)</b>	(371)
Gross profit		<b>514</b>	781	<b>802</b>	1,552
Other operating income		<b>28</b>	25	<b>31</b>	27
Distribution costs		<b>(682)</b>	(8)	<b>(1,465)</b>	(50)
Administrative expenses		<b>(3,366)</b>	(7,129)	<b>(6,414)</b>	(10,954)
Amortization of goodwill		-	2	-	5
<b>Loss from operations</b>	4	<b>(3,506)</b>	(6,329)	<b>(7,046)</b>	(9,420)
Interest on bank borrowings		<b>(3)</b>	(4)	<b>(4)</b>	(19)
Share of results of associates		-	(29)	-	(110)
Share of results of a jointly controlled entity		-	(260)	-	(261)
Loss on disposal of subsidiaries		-	(49)	-	(49)
<b>Loss before taxation</b>		<b>(3,509)</b>	(6,671)	<b>(7,050)</b>	(9,859)
Income tax expenses	5	-	-	-	-
Loss after taxation but before minority interests		<b>(3,509)</b>	(6,671)	<b>(7,050)</b>	(9,859)
Minority interests		<b>578</b>	-	<b>1,402</b>	-
<b>Loss attributable to shareholders</b>		<b>(2,931)</b>	(6,671)	<b>(5,648)</b>	(9,859)
Loss per share					
- Basic (in HK cents) (2004: restated)	7	<b>(1.37)</b>	(5.52)	<b>(3.04)</b>	(8.66)
- Diluted (in HK cents)	7	<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONSOLIDATED BALANCE SHEET

		At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Unaudited) HK\$'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment		13,751	15,766
Intangible assets		1,760	2,321
Goodwill		22,358	22,360
		<b>37,869</b>	40,447
<b>Current assets</b>			
Inventories		19	7
Trade receivables	8	2,199	1,985
Other receivables, deposits and prepayments		3,007	4,520
Cash and bank balances		5,526	582
		<b>10,751</b>	7,094
<b>Current liabilities</b>			
Trade payables		1,473	530
Other payables and accrued charges		3,115	2,568
Amounts due to directors	9	188	743
		<b>4,776</b>	3,841
<b>Net current assets</b>		<b>5,975</b>	3,253
		<b>43,844</b>	43,700
<b>Capital and reserves</b>			
Share capital	10	23,560	15,707
Reserves		17,685	23,991
		<b>41,245</b>	39,698
<b>Minority interests</b>		<b>2,599</b>	4,002
		<b>43,844</b>	43,700

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	<b>(2,105)</b>	9,163
Net cash used in investing activities	<b>(149)</b>	(16,819)
Net cash from financing activities	<b>7,195</b>	9,535
Increase in cash and cash equivalents	<b>4,941</b>	1,879
Cash and cash equivalents at the beginning of period	<b>582</b>	579
Effect of exchange rate changes	<b>3</b>	36
Cash and cash equivalents at the end of period	<b>5,526</b>	2,494
Analysis of balances of cash and cash equivalents:		
Bank balance and cash	<b>5,526</b>	2,494

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2005

	Share capital	Share premium	Capital reserve	Special reserve	PRC statutory reserve	Exchanged reserve	Accumu- lated loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	9,291	28,408	3,970	3,324	11,623	18	(13,582)	43,052
Issue of shares under the placing	1,858	3,902	-	-	-	-	-	5,760
Issue of shares under the share option scheme	929	2,323	-	-	-	-	-	3,252
Share issue expenses	-	(266)	-	-	-	-	-	(266)
Exchange adjustment	-	-	-	-	-	106	-	106
Loss for the period	-	-	-	-	-	-	(9,859)	(9,859)
<b>At 30 June 2004</b>	<b>12,078</b>	<b>34,367</b>	<b>3,970</b>	<b>3,324</b>	<b>11,623</b>	<b>124</b>	<b>(23,441)</b>	<b>42,045</b>
<b>At 1 January 2005</b>	<b>15,707</b>	<b>55,116</b>	<b>3,970</b>	<b>3,324</b>	<b>3,029</b>	<b>33</b>	<b>(41,481)</b>	<b>39,698</b>
Issue of new shares under the rights issue	7,852	-	-	-	-	-	-	7,852
Share issue expenses	-	(658)	-	-	-	-	-	(658)
Exchange adjustment	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	1	(5,648)	(5,647)
<b>At 30 June 2005</b>	<b>23,559</b>	<b>54,458</b>	<b>3,970</b>	<b>3,324</b>	<b>3,029</b>	<b>34</b>	<b>(47,129)</b>	<b>41,245</b>

Notes:

## 1. Principal Accounting Policies and Basis of Preparation

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). They comply with the applicable disclosure provisions of GEM Listing Rules.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("new HKAS") and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs, has results in the change in the Group's accounting policies for goodwill on acquisition of subsidiaries and associates and employee share option scheme. In prior years, goodwill on acquisition of subsidiaries and associates was carried at cost and amortised over its estimated useful life. Following the adoption of new HKAS and HKFRSs, goodwill on acquisition of subsidiaries and associate is carried at cost and reviewed for impairment annually. Impairment, if any, is charged to the profit and loss account. Prior to adoption of the new HKFRSs, no amounts were recognized when employees were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. With effect from 1 January 2005, the fair value of such share options is recognized as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted. If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to revenue reserves. This change in accounting policy has no material effect on the Group.

Saved as mentioned above, the accounting policies and basis of preparation adopted for the presentation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2004.



## 2. Turnover

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

	For the three months ended 30 June,		For the six months ended 30 June,	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
KM Systems				
– Non-structural knowledge integration systems	–	1,003	–	1,777
– Structural information integration and analysis systems	–	67	–	122
KM related network application systems	–	–	–	11
Other system and software related service	5	–	5	13
Voice portal gateway facilities in communication and voice portal application software	1,798	–	3,289	–
	<b>1,803</b>	1,070	<b>3,294</b>	1,923

### 3. Business And Geographical Segments

The Group's operations are situated in the PRC in which revenue was derived principally therefrom. Accordingly, no geographical segments were presented. The Group has two business segments engaged in the KM systems and the voice search engine portal. An analysis by business is as follows.

#### *Business segments*

The following table presents revenue and results for the Group's business segments:

	For the six months ended 30 June					
	KM Systems		Voice portal		Consolidated	
	2005	2004	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Turnover	5	1,923	3,289	-	3,294	1,923
Segment results	(3,245)	(9,420)	(2,489)	-	(5,734)	(9,420)
Unallocated corporate expenses					(1,312)	-
Loss from operations					(7,046)	(9,420)
Interest of bank borrowings					(4)	(19)
Share of results of associates					-	(110)
Share of result of a jointly controlled entity					-	(261)
Loss on disposal of subsidiaries					-	(49)
Loss before minority interest					(7,050)	(9,859)

#### 4. Loss From Operations

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

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Total staff costs	1,367	1,209
Bad debts written off	15	3,494
Provision for doubtful debts	-	(912)
Depreciation	2,132	1,462
Interest income	31	27

#### 5. Income Tax Expenses

The Group's primary operations are carried out in the PRC. The general tax rate for corporation in the PRC is 33%. However, in accordance with the applicable enterprise income tax law of the PRC, Beijing Linefan Technology Company Limited ("Beijing Linefan"), one of the Group's operating subsidiaries in the PRC is entitled to exemption for income tax for its first two profitable years of operations and a 50% relief on the income tax that would otherwise be charged for the succeeding three years. The income tax exemption period of Beijing Linefan expired in the year ended 31 December 2001. No provision for PRC income tax has been made for the period as Beijing Linefan has incurred a loss. 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 period as UBO 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 period. These losses can be carried forward to offset against future profits for a period of five years.

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

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

#### 6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

## 7. Loss Per Share

The calculation of the Group's basic and diluted loss per share for the three months and six months ended 30 June 2005 and 2004 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$2,931,000 (2004: HK\$6,671,000) and HK\$5,648,000 (2004: HK\$9,859,000).

The basic loss per share is based on the weighted average of 214,024,627 (2004: 120,780,900) and 185,702,886 (2004: 113,888,039) shares of HK\$0.10 each in issue during the three months and six months ended 30 June 2005 and 2004 respectively.

The computation of diluted earnings per share for the period ended 30 June 2005 does not assume the exercise of the Company's outstanding options as the exercise price of those options is higher than the average market price of shares.

The comparative figures of loss per share for the period ended 30 June 2004 had been re-calculated to reflect a rights issue and a share consolidation occurred during the period.

## 8. Trade Receivables

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

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Unaudited) HK\$'000
0-60 days	<b>1,232</b>	1,985
61-90 days	<b>596</b>	-
>90 days	<b>371</b>	-
	<b>2,199</b>	1,985

## 9. Amounts Due To Directors

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

## 10. 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	4,965,000,000	49,650
At 31 December 2003 and 31 December 2004	5,000,000,000	50,000
Share consolidation ( <i>Note 1</i> )	(4,500,000,000)	–
At 30 June 2005	500,000,000	50,000
Issued and fully paid:		
At 1 January 2002	67,200	–
Subdivided into 10 shares of \$0.01 each on 24 January 2002	604,800	–
	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	220,000,000	2,200
At 31 December 2003	929,090,000	9,291
Issue of shares under private placements	427,371,800	4,274
Issue of shares on exercise of options	92,909,000	929
Issue of shares on acquisition of a subsidiary	121,293,800	1,213
At 31 December 2004	1,570,664,600	15,707
Share consolidation ( <i>Note 1</i> )	(1,413,598,140)	–
Rights shares issued ( <i>Note 2</i> )	78,533,230	7,853
At 30 June 2005	235,599,690	23,560

### Notes:

- Pursuant to resolution passed on the extraordinary general meeting held on 31 March 2005, a share consolidation on the basis that every ten shares of HK\$0.01 each in the issued and unissued share capital of the Company being consolidated into one consolidated share of HK\$0.1 each was carried out. The authorised share capital of the Company remained at HK\$50,000,000, but was divided into 500,000,000 shares of HK\$0.1 each.
- The Company issued 78,533,230 ordinary shares of HK\$0.1 each by way of rights issue at an issue price of HK\$0.1 per rights share in the proportion of one rights share for every two consolidated shares during the period.

## 11. Operating Lease Commitments

At 30 June 2005, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	<b>As at 30 June 2005 (Unaudited) HK\$'000</b>	As at 31 December 2004 (Unaudited) HK\$'000
Within one year	<b>690</b>	101
In the second to fifth year inclusive	<b>264</b>	–
	<b>954</b>	101

## 12. Related Party Transactions

Apart from those disclosed under notes 9 above, the Group do not have any transaction with related party during the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the past six months, on the basis of further extension of the application of the voice search services as an application of knowledge management and the expansion of the whole network operations of China Unicom in over ten provinces and cities in the PRC, the Company has continuously expand its product lines and ventured into the Blazing Ringtone business with Heilongjiang Unicom and Shandong Unicom and ventured into the Games Business with Shangdong unicom. The Company focus on the application of voice search services in relevant industries. Meanwhile, the voice search service, a personalized and applicable information service, is being extended to provide information on lodgings, food and beverages and also tourism in order to cater the needs of target customers. The demonstration system has been introduced and was put into trial operation by Shandong Unicom. The system will commence its formal operation in the third quarter of the year. The information services will be expanded to cover a greater variety of industries.

The Company is shifting its focus from providing entertainment to the rendering of information application services. Meanwhile, the Company recognizes the important role of fundamental promotion in business promotion thus exploiting the advertising channels. This move not only allows the Company to mitigate industry risk but also lays a solid foundation for its future business development.

The Company continues to seek cooperation opportunities in order to expand the business scale with minimum expenses. With the launch of 3G, the Company will continue to develop the data research business, and integrate it with existing customer resources in order to perfect the integration of games, chatrooms and WAP features. The company is making preparations for network access in Shandong, Heilongjiang, etc.

## **Financial review**

For the six months ended 30 June 2005, the Group's turnover increased by 71.3% to approximately HK\$3,294,000 from approximately HK\$1,923,000 for the same period last year. The increase was mainly attributable to the successful introduction of mobile voice search services to customers in a nationwide scale and commencement of mobile valued-added voice service for the whole network of China Unicom.

Cost of sales for the period under review increased to approximately HK\$2,492,000 from approximately HK\$371,000 of the same period last year. The increase was in line with the increase in turnover during the period.

Distribution costs for the period under review increased to approximately HK\$1,465,000 from approximately HK\$50,000 of the same period last year. The increase was due to the expansion of sales and distribution networks and launching a series of nationwide promotional campaigns.

Administrative expenses for the period under review decreased to HK\$ 6,414,000 from approximately HK\$10,954,000 for the same period last year as a result of the adoption of cost control measures by the Group.

As a result, the Group recorded a loss attributable to shareholders amounting to approximately HK\$5,648,000 as compared to the loss attributable to shareholders of approximately HK\$9,859,000 for the same period last year.

## **Outlook**

As far as the application of knowledge management in voice search services is concerned, the Company will continue to strengthen its development and to enlarge the cooperation ambition and scale with domestic mobile service providers in value-added voice services in the second half of the year. While expanding its existing services, the Company will continue to develop the information application and the voice search services in relevant industries so as to develop a more personalized information application service of mobile voice search services, and to perfect the application of information system voice search services a step further, and increase its coverage. Our one-stop service aims at increasing customers' utilization and loyalty. The Company will fully utilize the advantages and resources in order to enhance a better cooperation with clients, and to realize low-cost but rapid growth by leveraging on our partners' advantages.

In order to further expand its business, the Company will cooperate with China Mobile and China Netcom in the field of voice add-value business in second half of the year.



In line with the development plan of 3G by the government, the Company will continue to strengthen the development of data business. This will effectively integrate existing customers resources with the data and voice search business and realize the effective integration of WAP with voices, SMS and network services. This will pave the way for the Company's participation in the 3G era, and achieve a smooth transition and steady development.

### **Material acquisitions and disposals**

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

### **Segmental information**

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

### **Charge on Group assets and contingent liabilities**

There was no charge on the Group's assets and no significant contingent liabilities as at 30 June 2005.

### **Exposure to fluctuations in exchange rates**

All of the Group's assets, liabilities and transactions are denominated either in Hong Kong dollars or Renminbi (RMB). As the exchange rate of HK\$ against RMB has been stable for the year under review, so the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

### **Gearing ratio**

As at 30 June 2005, the Group had cash and cash equivalents of approximately HK\$5,526,000 in its current assets while its current liabilities stood at approximately HK\$4,776,000. The Group did not have outstanding bank indebtedness as of 30 June 2005 and its shareholders' funds amounted to approximately HK\$41,245,000. In this regard, the Group had a net cash position as of 30 June 2005.

## **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 30 June 2005, the Group's cash and cash equivalents balance was approximately HK\$5,526,000. The shareholders' funds of the Group amounted to approximately HK\$41,245,000 as at 30 June 2005 as compared to HK\$39,698,000 as at 31 December 2004.

## **Employees**

As at 30 June 2005, the Group had 44 full time employees.

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

## **Capital structure**

On 1 April 2005, a share consolidation on the basis that every ten shares of HK\$0.01 each in the issued and unissued share capital of the Company being consolidated into one consolidated share of HK\$0.1 each was carried out. The authorised share capital of the Company remained at HK\$50,000,000 but was divided into 500,000,000 shares of HK\$0.1 each. On 3 May 2005, the Company issued 78,533,230 ordinary shares of HK\$0.1 each by way of rights issue at an issue price of HK\$0.1 per rights share in the proportion of one rights share for every two consolidated shares. As a result, the total issued shares of the Company is 235,599,690.

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

As at 30 June 2005, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including benefits by means of the acquisition of shares in, debts securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executives if the Company or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercise any such right.

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

As at 30 June 2005, 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	Number of ordinary shares of HK\$0.1 each in the share capital of the Company			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Zhu Guang Bo	–	–	30,660,000 <i>(Note 1)</i>	–

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 30 June 2005, none of the directors and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to notify to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests of short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS

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

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, 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>Number of ordinary shares of HK\$0.1 each</b>	<b>Approximate percentage of holding</b>
Ms. Lu Wen Bin	Beneficial owner	44,533,911	18.90%
World Develop Limited ( <i>Note 1</i> )	Beneficial owner	30,660,000	13.01%
Mr. Zhu Guang Bo ( <i>Note 1 and 2</i> )	Held by controlled corporation	30,660,000	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 30 June 2005, 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.

## Share Options Scheme

On 24 January 2002, the share option scheme of the Company was approved pursuant to a written resolution of the Company (the "Share Option Scheme"). The principle terms of which are set out in the section headed "Share Option Scheme" in the prospectus. As at 1 January 2005, options in respect of a total 185,809,000 shares were granted since the adoption of the Share Option Scheme which were all made to various employees and an aggregate of 92,909,000 options have been exercised by option holders and 74,900,000 have been lapsed. The following table disclose details of movements of the Company's share options during the period ended 30 June 2005.

Date of grant	Exercisable period	Exercise price per share HK\$ (Note)	Outstanding as at 1.1.2005	Granted during the period	Exercise during the period	Cancelled/	Adjusted during the period (Note)	Outstanding as at 30.6.2005
						lapsed during the period		
15.11.2002	15.11.2002-14.11.2005	1.83	18,000,000	-	-	(900,000)	(16,200,000)	900,000

The number and the exercise price of options which remained outstanding on 30 June 2005 have been adjusted due to consolidation on the basis of every ten shares of HK\$0.01 each being consolidated into one consolidated share of HK\$0.1 each. The exercise price per share was adjusted from HK\$0.183 to HK\$1.83.

## 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 period.

## 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.

## **THE CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company has been searching for suitable candidate to fill the vacancy of chief executive officer and is in the progress of forming the remuneration committee and drafting its terms of reference. Save as disclosed above, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2005.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules ("required standard of dealings"). Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the six months ended 30 June 2005.

## **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 conduct four times of the meeting for a year, usually one or two business days before the Board of Directors to approve the financial results. The Group's unaudited consolidated results for the period ended 30 June 2005 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By Order of the Board

**Wang Yong**  
*Chairman*

Hong Kong, 8 August 2005